

# THE POWER OF LIQUIDITY: A NEW STRATEGY FOR INVESTING IN STOCKS



American Beacon Zebra Large Cap  
Equity Fund

American Beacon Zebra Small Cap  
Equity Fund



# THE AMERICAN BEACON DIFFERENCE: EXCEPTIONAL MANAGER SELECTION

At American Beacon Advisors, we think a little differently about providing investment advisory services to institutional and retail markets. We have extensive experience identifying the leading investment manager or managers in each asset class we offer.

**OVERSIGHT 360** is our demanding process for evaluating investment managers. To be selected as a manager for an American Beacon Fund, each investment firm must meet and maintain our criteria for:

- Long-term performance
- Adherence to stated investment philosophy
- Continuity of the management team

We used this disciplined process when targeting Zebra Capital Management as manager of our American Beacon Zebra Equity Funds (ABZ Equity Funds).



## **A POWERFUL PARTNERSHIP WITH ZEBRA CAPITAL MANAGEMENT**

Each of the ABZ Equity Funds is a first-of-its-kind offering, available only through the American Beacon Funds. Our sub-advisor, Zebra Capital Management, is a leading-edge investment firm specializing in fundamentally based, systematic equity strategies.

Founded in 2001, Zebra has over \$600M<sup>1</sup> in assets under management. Its founder and Chairman, Roger Ibbotson, Ph.D., is a professor of finance at Yale University. Ibbotson is also the founder of Ibbotson Associates, Inc. — a registered investment advisor and wholly owned subsidiary of Morningstar, Inc., a well-known investment industry research firm.

Based on extensive research, Zebra's founders developed the proprietary investment process behind the ABZ Equity Funds to take advantage of the "liquidity premium." Once available only to institutional investors, American Beacon now offers individual investors exclusive access to Zebra's strategy via the ABZ Equity Funds.

**"Having studied liquidity for over 20 years, our research concluded that there is a 'liquidity driver' that provides an impressive opportunity to generate portfolio alpha."<sup>2</sup>**

*Roger Ibbotson, Ph.D., Chairman  
Zebra Capital Management*

<sup>1</sup> As of July 31, 2011

<sup>2</sup> Alpha is defined as return in excess of a targeted benchmark



### **AMERICAN BEACON ZEBRA EQUITY FUNDS: ESSENTIAL QUALITIES FOR “INTERESTING” TIMES**

These days, all investing occurs in interesting times. In fact, recent times have changed the focus of investors who are now looking for a different approach. Gone are the days when high return potential alone increased the perceived attractiveness of investments featuring mysterious bells and whistles, exotic approaches and obscure methods for earning returns. Exactly the opposite is true now.

**“The concept of a ‘liquidity premium’ had been established in academia for decades; the way for individual investors to benefit from it had not. Until now!”**

*Roger Ibbotson, Ph.D., Chairman  
Zebra Capital Management*

### **Essential qualities for today’s investors include:**

- New sources for generating portfolio returns
- Attractive reward versus risk potential
- Added diversification
- Clear, commonsense strategy
- Systematic, repeatable process
- Easy access and liquidity

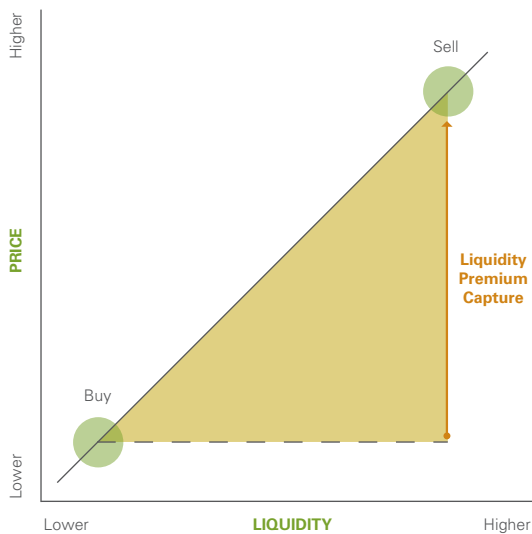
That’s what the ABZ Equity Funds can bring to your portfolio.

### **THE LIQUIDITY PREMIUM: A WELL-DOCUMENTED FACT**

Investors pay a premium for a security that is more liquid (higher trading volume) than for a security that is less liquid (lower trading volume). And, over time, relatively less-liquid stocks have outperformed more-liquid stocks. That’s because stocks that are less liquid trade at a discount and thus have greater return potential.

# THE SIMPLE PREMISE: THERE'S VALUE IN LIQUIDITY

## WHAT DOES LIQUIDITY CAPTURE LOOK LIKE?



Investors buy relatively lower-liquidity securities at a discount. Over time, if the security appreciates, both its price and liquidity factors will increase. By selling the security when it regains trading velocity, the investor realizes — or captures — a gain from the premium price.

## THE HISTORICAL PROOF

Over the past 39 years, lower-liquidity stocks outperformed those with higher liquidity by nearly 3% for the largest cap stocks, and by wider margins at smaller market caps (as shown in the table on page 4).

Even so, liquidity is often overlooked by investors as a security selection criterion. Not so with institutional investors. In fact, investing to capture a liquidity premium has been used by institutional investors seeking high potential gains from illiquid assets like private equity, venture capital or real estate — sophisticated investment strategies not recommended for the individual investor.

But Zebra's co-founders set out to prove differently.

# LIQUIDITY: THE UNDISCOVERED, UNDERAPPRECIATED INVESTMENT STYLE

## A NEW INVESTMENT STYLE?

Zebra found liquidity to be an “economically significant” investment style in its own right. Its effect is distinct from (and additive to) traditional investment styles normally considered by investors, such as company size, value/growth and momentum. This is shown in the three tables below.

Relatively less-liquid stocks delivered higher returns over more-liquid stocks across the board. The shaded columns show that relatively lower liquidity improved performance, whether looking at market “cap,” value vs. growth or momentum styles.

## THE BENEFITS OF A NEW “LIQUIDITY STYLE” CRITERION:

- A new source of portfolio returns, beyond common investment styles
- Opportunity to add to the results of other styles
- Enhanced equity style diversification, helping to manage risk

### LIQUIDITY VS. MARKET CAPITALIZATION

		LIQUIDITY			
		LOW			HIGH
		1	2	3	4
SIZE	SMALL	18.17	17.46	13.51	6.16
	2	16.87	15.15	11.68	6.52
	3	15.15	14.36	12.87	9.56
	LARGE	12.49	11.48	11.55	9.87

### LIQUIDITY VS. VALUE/GROWTH

		LIQUIDITY			
		LOW			HIGH
		1	2	3	4
STYLE	VALUE	20.82	17.98	17.02	12.53
	2	15.74	14.93	13.54	12.45
	3	13.97	12.46	10.69	8.04
	GROWTH	11.93	11.85	7.88	3.88

### LIQUIDITY VS. MOMENTUM

		LIQUIDITY			
		LOW			HIGH
		1	2	3	4
MOMENTUM	HIGH	17.41	15.74	12.96	11.02
	2	17.18	15.77	12.86	9.47
	3	15.29	14.45	13.74	9.38
	LOW	14.31	10.64	9.83	5.59

U.S. equity annual return quartiles 1972-2010 (%). Top 3,500 stocks by quartile, rebalanced annually.  
Source: Ibbotson, Chen and Hu, “Liquidity as an Investment Style,” April 2011.



### **CAPTURING THE LIQUIDITY PREMIUM FOR EVERYDAY INVESTORS**

Zebra is the first asset manager to identify how to take advantage of the liquidity premium among the public equity markets. ABZ Equity Funds offer the first and only way for individual investors to take advantage of Zebra's strategy — within the familiar framework of a mutual fund offering daily liquidity.

### **DIVERSIFY YOUR ABZ EQUITY FUNDS**

With ABZ Equity Funds, investors can take the diversification potential of the new "Liquidity Style" one step further. That's because the Funds are offered in two market capitalization (or "cap") ranges:

- **American Beacon Zebra Large Cap Equity**

**Fund:** Invests primarily in stocks of large U.S. companies within the Russell 1000® Index.

*For investors who want to take advantage of the liquidity strategy with large, well-established companies*

- **American Beacon Zebra Small Cap Equity**

**Fund:** Invests primarily in stocks of smaller U.S. companies within the Russell 2000® Index.

*For investors who want to take advantage of the liquidity strategy with lesser-known, potentially faster-growing companies with greater return potential*

**Which fund is right for you?** Ask your financial advisor. The answer might be a mix of both. Investors should know that while small-cap companies have outperformed large-cap companies over time, they are subject to greater volatility and therefore considered to involve higher risk than large-cap companies. At times, certain securities may have limited marketability and may be difficult to sell.



### **ABZ EQUITY FUNDS' INVESTMENT PHILOSOPHY**

The basic premise behind the strategy is crystal clear. Take advantage of the liquidity premium by:

- Using a proprietary selection methodology to identify publicly traded equities with relatively attractive fundamentals AND relatively lower liquidity
- Seeking to outperform applicable benchmarks while maintaining equal or lower risk
- Actively monitoring holdings and managing risk
- Maintaining broad diversification to limit over-exposure to any one style, sector or stock
- Keeping costs in line

### **A PROPRIETARY STOCK SELECTION AND MANAGEMENT PROCESS**

Along with risk/return and diversification benefits established earlier, ABZ Equity Funds' proprietary stock selection process adds the following investor benefits:

- A clear, commonsense strategy
- A systematic, repeatable stock selection process that doesn't depend on individual stock-picking or market timing
- Ongoing oversight and risk management by Zebra and American Beacon

**“There is a missing link in investors’ style-based stock selection criteria—liquidity investing. That is, to favor relatively less-liquid stocks while de-emphasizing more-liquid stocks, assuming the underlying companies have similar fundamentals.”**

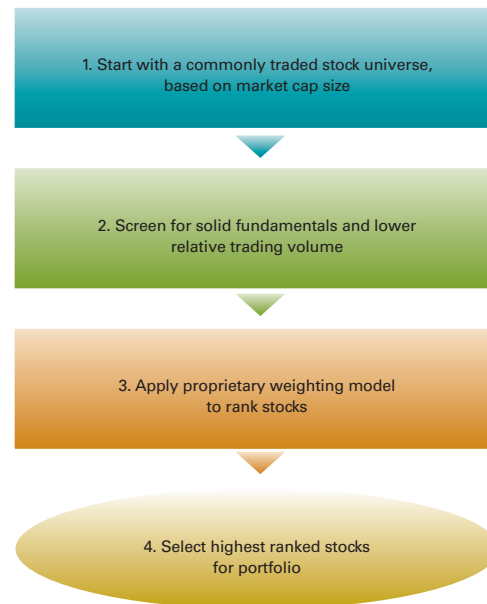
*Roger Ibbotson, Ph.D., Chairman  
Zebra Capital Management*

# IT'S BASICALLY "BUY LOW, SELL HIGH" FROM A WHOLE NEW ANGLE

## A REPEATABLE, SYSTEMATIC FRAMEWORK FOR CAPTURING A LIQUIDITY PREMIUM

1. Zebra starts with the universe of commonly traded stocks within the Russell Small and Large Cap Indices.
2. The universe is screened, searching for companies with attractive fundamentals but lower trading volumes (and lower prices) than similarly attractive companies. Essentially, they are currently "out-of-favor" stocks.
3. Proprietary screening criteria is then applied, and stocks are ranked by opportunity potential.
4. The portfolio is built using the highest-ranked stocks — or, those deemed most likely to deliver a liquidity premium when sold.

## A SYSTEMATIC FRAMEWORK



As history has shown, lower-volume stocks have tended to revert to the mean (bounce back to normal/higher trading volumes). At that point, managers sell the stocks to capture the liquidity premium gained by buying at the right time — when trading volume and prices are relatively low.



### **ABZ EQUITY FUNDS' PORTFOLIO OVERSIGHT FRAMEWORK**

While the ABZ Equity Funds' stock selection process is methodical and systematic, portfolio managers are continually watching over the investment process: monitoring portfolio construction, viewing the Funds in light of current economic and market conditions, and keeping track of individual stock and company news. The combination of the personal, diligent oversight of fund managers and the selection methodology of the Funds' investment process provides a unique blend of common sense and science.

### **A CLEAR MONITORING PROCESS ENHANCES RISK MANAGEMENT**



After applying the proprietary stock selection process, portfolio managers are continuously at work: managing and testing potential risk factors, evaluating day-to-day and overall performance, and monitoring portfolio characteristics such as diversification, liquidity and risk exposure.

# INVESTING IN INTERESTING TIMES REQUIRES YOU TO THINK A LITTLE DIFFERENTLY

## ESSENTIAL QUALITIES FOR TODAY'S INVESTORS

The ABZ Equity Funds offer an opportunity to add an important new dimension to your portfolio. In fact, they offer an entirely new way to look at equities — from the liquidity perspective. Here's a benefit recap:

- New source for generating portfolio returns
- Attractive reward versus risk potential
- Expanded equity style diversification
- Clear, commonsense strategy
- Systematic, repeatable process
- Easy access and liquidity
- Exclusive professional management by Zebra Capital Management
- Ongoing oversight by American Beacon Advisors

### **American Beacon Zebra Large Cap Equity Fund**

Institutional Class	AZLIX
Investor Class	AZLPX
Y Class	AZLYX
A Class	AZLAX
C Class	AZLCX

### **American Beacon Zebra Small Cap Equity Fund**

Institutional Class	AZSIX
Investor Class	AZSPX
Y Class	AZSYX
A Class	AZSAX
C Class	AZSCX

**For more information about the American Beacon Zebra Equity Funds, visit [americanbeaconfunds.com](http://americanbeaconfunds.com).**

**EVER WATCHFUL. EVER ANALYTICAL. EVER FOCUSED. EVER COMMITTED.**

For more than 25 years, American Beacon has been on the watch — overseeing investments for corporate, institutional and individual investors. Our leadership position as an expert evaluator of investment managers is built on a long-standing history of independent thinking, discipline and consistency.

In fact, as the fiduciary for billions of dollars in pension plan assets, we have been evaluating, selecting and monitoring investment managers for several decades. And we remain intent on pursuing consistent, long-term investment performance on behalf of those who place their assets under our watchful eye.

**O V E R S I G H T 3 6 0**



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**Important Information:** There is no assurance that the Funds will achieve their investment objective. An investment in the Funds is subject to risk, including the possible loss of principal. At times, certain securities may have limited marketability and may be difficult to sell. Investing in the securities of small capitalization companies involves greater risk and the possibility of greater price volatility than investing in larger capitalization and more established companies.

***You should consider the investment objectives, risks, charges and expenses of the Fund carefully before investing. The prospectus and summary prospectus contain this and additional information regarding the Fund. To obtain a prospectus and summary prospectus, please contact your financial advisor, call 800-967-9009 or visit [americanbeaconfunds.com](http://americanbeaconfunds.com). The prospectus and summary prospectus should be read carefully before investing.***

Large Cap Equity Fund Market Index: The Fund's performance is compared to the Russell 1000® Index, an unmanaged index comprised of approximately 1,000 larger-capitalization stocks from various industry sectors. The Russell 1000 Index is a registered trademark of Frank Russell Company.

Small Cap Equity Fund Market Index: The Fund's performance is compared to the Russell 2000® Index, an unmanaged index comprised of approximately 2,000 smaller-capitalization stocks from various industry sectors. The Russell 2000 Index is a registered trademark of Frank Russell Company.

These indices are unmanaged and include the reinvestment of dividends and earnings. Investors cannot invest directly in these indices.

**THE HISTORICAL PERFORMANCE OF LESS-LIQUID STOCKS PROVIDED ON PAGE 4 DOES NOT NECESSARILY REPRESENT PROJECTED PERFORMANCE OF THE ABZ EQUITY FUNDS AND IS NOT INDICATIVE OF FUTURE RESULTS FOR THE FUNDS.**

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