

## Financial Community Presentation/February 5, 2003/Ted Truscott

Thank you, Barbara.

As Jim mentioned, our Building Blocks for Growth strategy has four main components and my work as Chief Investment Officer is directly linked to the More Enhanced Capabilities and Processes and More Effective Organization blocks.

I'd like to update you on the progress we have made and the steps taken to improve investment performance.

We have significantly moved the performance dial in the right direction in the equity categories and have more work to do in fixed income. We can see the positive impact of our efforts each month that our portfolios outperform their Lipper peer groups. As poor performing months roll off, we are seeing improved performance in 1-year numbers and in some cases 3- and 5-year numbers.

The team brought me to AEFA in September of 2001 to help build a world class asset management organization. I was attracted to AEFA by the strong brand, tremendous distribution capabilities, and the opportunity to grow the financial services and asset management business of American Express.

The AEFA senior leadership team is committed to improving performance and efforts were already underway before I arrived. Jim had hired a VP of Risk Management and launched an internal initiative known as World Class Asset Management and Insurance, which addressed key gaps in our asset management business and suggested solutions to fill those gaps. Organizational support was therefore in place to make changes especially in the area of talent since many key portfolios were underperforming both benchmarks and Lipper peer groups.

We are operating against a three-part strategy –

- Attract new talent, build around existing talent;
- Improve our hub operations, and
- Expansion.

We have largely completed the talent building and acquisition component and our immediate focus is on improving operations.

We believe that there are diseconomies of scale in this business. In fact, one of the great paradoxes of the industry is that investment management firms with small resources, also known as boutiques, can outperform larger shops with much higher levels of resources. At the same time, we also know that this is largely a scale business where leverage is obtained by managing more assets with a largely fixed amount of cost, mostly in the form of people and technology.

In the equity world, we decided to have the best of both worlds and operate like a boutique while managing a large amount of assets. As such, we have largely decentralized our equity investment management capabilities and established geographic diversity with investment satellite offices in Boston, Cambridge, New York, San Diego and London.

Satellite offices are staffed with highly talented portfolio managers and dedicated analysts. Each office is responsible for a product or group of products with performance as the key deliverable. This is how we created the boutique atmosphere of mutual accountability within a large firm.

Our headquarters remains in Minneapolis with many scalable activities such as compliance and operations. Our commitment to research excellence is enhanced by the dedicated Minneapolis central research facility. We have a disciplined investment approach through assigned benchmarks and risk parameters to ensure investments are performance driven and deliver on our client expectations. We are experienced. We have delivered on our clients' investment needs through all market conditions for over 100 years. This brings me to talent.

We have had challenges in investment performance but we have also had pockets of good investment talent and performance especially Gordon Fines and his team. As part of our strategy to decentralize our equity operations, we established a San Diego boutique led by Gordon to run our Growth Spectrum product offerings in the institutional world and continue the strong performance of AXP® *New Dimensions Fund*®.

Gordon is joined by Duncan Evered and Paul Rokosz who co-manage the four star AXP Equity Select Fund.

We made Duncan sole portfolio manager on AXP Equity Select Fund and named Paul portfolio manager on AXP Strategy Aggressive Fund on July 1, 2002. The strong performance of the San Diego boutique is evident when you look at their results.

In addition to establishing the San Diego office, we created a satellite office in Boston when we hired three top portfolio managers from Fidelity

- Doug Chase
- Nick Thakore
- Bob Ewing

These are seasoned managers with successful track records who ran:

- Fidelity Export and Multinational (Chase)
- Fidelity Fund (Thakore)
- Fidelity Balanced - equity portion (Ewing)

Since we established our Boston Office, we have seen tremendous short-term results across the three large cap styles they manage – Growth, Core, and Value. For instance, AXP Growth Fund's 1-year performance places it in the top quartile for Large Cap Growth portfolios.

I would like to share with you the performance rankings for the portfolios they began managing on April 1, 2002 as well as for two new funds that we launched, AXP Large Cap Equity Fund and AXP Large Cap Value Fund

But as you know NASD rules forbid presenting less than 1-year performance rankings in communications with the public and the circumstances of this meeting including its broad availability via webcast means we are subject to these rules. I can tell you, however, that we are very pleased with their initial results and I look forward to sharing with you their 1-year results later this year.

In our business the best want to work for the best, and therefore, talent attracts talent. We hired top analysts from many competing firms such as Putnam, MFS, and several hedge funds to establish our Boston boutique. Two of the analysts, Nina Hughes and Telis Bertsekas, also manage AXP Global Technology Fund, which at the end of 2002 ranked in the 46<sup>th</sup> percentile for 1-year performance within its Lipper peer group.<sup>2</sup>

As these new resources started working together, we saw an immediate culture shift across the firm especially an emphasis on high quality fundamental research.

We expanded our quantitative capabilities by acquiring the asset of Dynamic Ideas, LLC, a quantitative research firm formed by Dr. Dimitris Bertsimas, the Boeing Professor of Operations Research at MIT.

Dr. Bertsimas was a key consultant to well respected firms including Grantham, Mayo & Von Otterloo, and he and his team have begun working on asset allocation models. They will use these proprietary models and optimization techniques to run the equity portion of AXP Managed Allocation Fund, a new fund - AXP Quantitative Large Cap Equity Fund, and managed accounts.

We hired Michelle Keeley from Zurich to run our fixed income department. Michelle has since enhanced her talent base by attracting individuals like Tom Murphy from BlackRock to run Investment Grade Corporates and Jerri Cohen from Scudder to manage our cash portfolios.

We have restructured our international boutique in London with the leadership of Mark Burgess. We have restructured and improved a smaller but more effective central research department, under the leadership of Tom Mahowald, which is designed to support the efforts of our boutiques. As head of fixed income, Michelle Keeley leads our owned asset organization.

We hold a high quality portfolio, consistent with our goals of diversification, liquidity and high credit quality. In 2002, we had a strong year given this low risk profile. We transitioned risk from credit to cash flow as the credit environment deteriorated. This insulated the portfolio from credit shocks as defaults climbed to historic highs and spreads widened.

Our overarching goal is consistent, superior investment results over time. And we have to have clear goals to adequately judge performance. At any point in time, we want 60-70 percent of our portfolios and assets above median as compared to their Lipper peer groups with no more than 15 percent in the fourth quartile. Fourth quartile performance is a key dissatisfier for our clients.

We re-assigned every problem equity portfolio at AEFA in the last year. As you can see, the trends are what we want – more of our portfolios and assets are above median. We clearly could not have moved the numbers if we had not had significant performance improvements in the portfolios where we changed managers or processes last year. We ended 2002 with 69 percent of equity mutual fund assets in portfolios that were above median, compared to 50 percent at the end of 2001<sup>2</sup>.

When looking at performance in terms of portfolios, the percentage above median rose from 26 percent at the end of 2001 to 44 percent at the end of 2002<sup>2</sup>.

We significantly reduced the number of portfolios in the fourth quartile – only 11 percent of our portfolios on an asset weighted basis, down from 34 percent in 2001<sup>2</sup>. This trend is also reflected on an equal weighted basis. In one year, we reduced the number of portfolios in the 4<sup>th</sup> quartile from 57 percent at the end of 2001 to 18 percent at the end of 2002<sup>2</sup>.

While we are pleased with these results, we recognize that achieving investment performance is difficult. Markets are variable and can work against you. It takes time to change a track record.

We are not meeting our fixed income performance goals, but in fixed income, the spreads between the best performing and worst performing portfolios in a particular category are often smaller than in equities. Similar to what we did on the equity side, Michelle Keeley recently announced the revamping of our fixed income operational structure.

We are moving to a fixed income organizational model that leverages team-based, sector-specific leadership – similar to the structure of leading fixed income asset managers like BlackRock or Pimco.

American Express has taken the stance that we will invest in our asset management business during this difficult period in the market and emerge stronger when markets rebound. In 2003, we will invest in upgrading technology and further building our infrastructure, which is part of stage II of our strategy to improve hub operations. Our early results are gaining attention from Morningstar, media, and our advisors.

I am confident we will continue to improve investment performance in 2003, based on the following:

- Equity managers who took over portfolios in 2002 will have reached their individual 1-year performance;
- Our San Diego and Cambridge offices, as well as central research will be fully operational;
- Fixed income will have the benefit of operating under sector-specific leadership teams and
- Technology support capabilities will be upgraded.

I hope I have been able to give you an overview of our initiatives and insights into what we intend to do going forward. I'll turn it back to Jim and would be happy to answer any questions when we reach the question and answer portion of the meeting.

## NOTES:

<sup>1</sup> About Morningstar ratings. For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating (based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges, loads and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10 percent of funds in each category receive 5 stars, the next 22.5 percent receive 4 stars, the next 35 percent receive 3 stars, the next 22.5 percent receive 2 stars and the bottom 10 percent receive 1 star. Highly rated funds are defined as those that have a four or five star Morningstar rating. Data provided by Morningstar, Inc.® 2001. All rights reserved. Morningstar data (1) is proprietary to Morningstar and/or its affiliates; (2) may not be copied or distributed; (3) is not warranted to be accurate, complete or timely. American Express does not review the Morningstar data and, for mutual fund performance information, you should check the fund's current prospectus for the most up to date information concerning applicable loads, fees and expenses.

<sup>2</sup> Lipper is an independent agency that ranks mutual fund performance by asset class and investment style. Rankings measure the performance of individual funds against other funds that invest in similar securities. American Express' internally-managed equity and fixed income portfolio performance is measured in the following categories: large cap growth, large cap core, large cap value, mid cap growth, mid cap value, multi-cap growth, small cap core, balanced, flexible portfolio, equity income, gold oriented, science and technology, utility, emerging markets, European region, global, international and global flexible portfolio, corporate debt (A rated), corporate debt, corporate debt (BBB rated), global income, high current yield, short US government, US mortgage, general US government, California municipal dept, general municipal debt, insured municipal debt, Massachusetts municipal debt, Michigan municipal debt, Minnesota municipal debt, New York municipal debt, Ohio municipal debt, intermediate municipal dept.

### Performance of Ranked Funds from Previous Slides:

<u>Fund Name</u>	<u>1 year</u>	<u>5 year</u>	<u>10 year</u>
AXP® Growth Fund	-28.46 percent	-7.41 percent	4.90 percent
AXP® Global Technology Fund	-42.08 percent	-6.54 percent	NA <sup>1</sup>
AXP® Equity Select Fund	-18.73 percent	1.30 percent	8.83 percent
AXP® New Dimensions Fund	-26.02 percent	-0.77 percent	8.39 percent
AXP® Growth Dimensions Fund	-29.94 percent	NA <sup>2</sup>	NA <sup>2</sup>

### Annualized Total Returns, Class A

<sup>1</sup> -4.45 percent since inception

<sup>2</sup> -32.53 percent since inception

Past performance is no guarantee of future results. Investment return and value will fluctuate, so that shares, when redeemed, may be worth more or less than the original cost.

For more information about American Express Funds, including fees and expenses, call (800) AXP-FUND, access [americanexpress.com](http://americanexpress.com) or speak to an advisor to obtain a prospectus. Please read it carefully before you invest.

## **INFORMATION RELATING TO FORWARD LOOKING STATEMENTS**

This presentation includes forward-looking statements, which are subject to risks and uncertainties. The words "believe," "expect," "anticipate," "optimistic," "intend," "plan," "aim," "will," "should," "could," "likely," and similar expressions are intended to identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they are made. The company undertakes no obligation to update or revise any forward-looking statements. Factors that could cause actual results to differ materially from these forward-looking statements include, but are not limited to: the company's ability to successfully implement a business model that allows for significant earnings growth based on revenue growth that is lower than historical levels, including the ability to improve its operating expense to revenue ratio both in the short-term and over time, which will depend in part on the effectiveness of re-engineering and other cost control initiatives, as well as factors impacting the company's revenues; the company's ability to grow its business and meet or exceed its return on equity target by reinvesting approximately 35% of annually-generated capital, and returning approximately 65% of such capital to shareholders, over time, which will depend on the company's ability to manage its capital needs and the effect of business mix, acquisitions and rating agency requirements; the ability to increase investment spending, which will depend in part on the equity markets and other factors affecting revenues, and the ability to capitalize on such investments to improve business metrics; fluctuation in the equity markets, which can affect the amount and types of investment products sold by AEFA, the market value of its managed assets, management and distribution fees received based on those assets and the amount of amortization of DAC; potential deterioration in AEFA's high-yield and other investments, which could result in further losses in AEFA's investment portfolio; the ability of AEFA to sell certain high-yield investments at expected values and within anticipated timeframes and to maintain its high-yield portfolio at certain levels in the future; developments relating to AEFA's platform structure for financial advisors, including the ability to increase advisor productivity, increase the growth of productive new advisors and create efficiencies in the infrastructure; AEFA's ability to roll out new and attractive products in a timely manner and effectively manage the economics in selling a growing volume of non-proprietary products; investment performance in AEFA's businesses; the success, timeliness and financial impact, including costs, cost savings and other benefits, of re-engineering initiatives being implemented or considered by the company, including cost management, structural and strategic measures such as vendor, process, facilities and operations consolidation, outsourcing (including, among others, technologies operations), relocating certain functions to lower cost overseas locations, moving internal and external functions to the Internet to save costs, the scale-back of corporate lending in certain regions, and planned staff reductions relating to certain of such re-engineering actions; the ability to control and manage operating, infrastructure, advertising and promotion and other expenses as business expands or changes, including balancing the need for longer-term investment spending; the impact on the company's businesses and uncertainty created by the September 11th terrorist attacks, and the potential negative effect on the company's businesses and infrastructure, including information technology systems, of any such attacks or disaster in the future; the impact on the company's businesses resulting from a war with Iraq; the company's ability to recover under its insurance policies for losses resulting from the September 11th terrorist attacks; consumer and business spending on the company's travel related services products, particularly credit and charge cards and growth in card lending balances, which depend in part on the ability to issue new and enhanced card products and increase revenues from such products, attract new Cardholders, capture a greater share of existing Cardholders' spending, sustain premium discount rates, increase merchant coverage, retain Cardmembers after low introductory lending rates have expired, and expand the global network services business; the ability to execute the company's global corporate services strategy, including greater penetration of middle market companies, increasing capture of non-T&E spending through greater use of the company's purchasing card and other means, and further globalizing business capabilities; the ability to manage and expand Cardmember benefits, including Membership Rewards(R), in a cost effective manner; the triggering of obligations to make payments to certain co-brand partners, merchants, vendors and customers under contractual arrangements with such parties under certain circumstances; successfully expanding the company's on-line and off-line distribution channels and cross-selling financial, travel, card and other products and services to its customer base, both in the U.S. and abroad; effectively leveraging the company's assets, such as its brand, customers and international presence, in the Internet environment; investing in and competing at the leading edge of technology across all businesses; a downturn in the company's businesses and/or negative changes in the company's and its subsidiaries' credit ratings, which could result in contingent payments under contracts, decreased liquidity and higher borrowing costs;

increasing competition in all of the company's major businesses; fluctuations in interest rates, which impact the company's borrowing costs, return on lending products and spreads in the investment and insurance businesses; credit trends and the rate of bankruptcies, which can affect spending on card products, debt payments by individual and corporate customers and businesses that accept the company's card products and returns on the company's investment portfolios; foreign currency exchange rates; political or economic instability in certain regions or countries, which could affect lending activities, among other businesses; legal and regulatory developments, such as in the areas of consumer privacy and data protection; acquisitions; the adoption of recently issued accounting rules related to the consolidation of special purpose entities, including those involving collateralized debt obligations, structured loan trusts, mutual funds, hedge funds and limited partnerships that the company manages and/or invests in, which could affect both the company's balance sheet and results of operations; and outcomes in litigation. A further description of these and other risks and uncertainties can be found in the company's Annual Report on Form 10-K for the year ended December 31, 2001, and its other reports filed with the SEC.