

**Presenting
debate on
contemporary
and emerging
portfolio
construction
issues**



portfolio
construction

CONFERENCE

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private and confidential

Planes, trains and ships – unveiling the investment community's best kept secret...

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partnership / determination / ingenuity



Presentation to PortfolioConstruction Conference 2007

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- Allco Finance Group – Overview
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- Summary

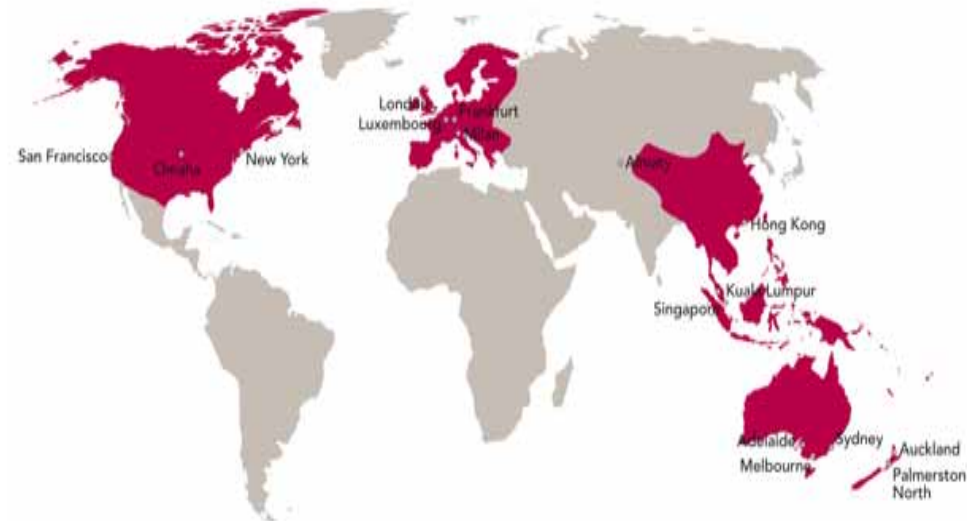
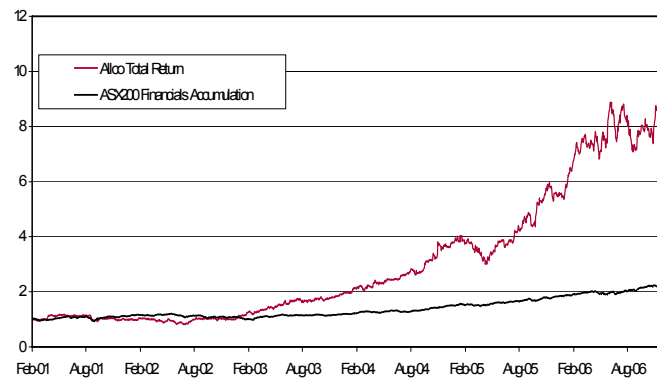
Allco Finance Group - Overview

Allco Finance - Group Overview



- Allco Finance Group is a global financial services organization specialising in structured asset finance, funds management and debt funding
- Allco is publicly listed on the Australian Stock Exchange and has a market capitalisation of approximately A\$4bn (ASX: AFG)
- Founded in Sydney in 1979, Allco has proven successful as a transaction originator, product innovator and arranger of complex asset and structured finance transactions
- Allco currently employs over 440 staff located in offices worldwide

Allco Share Price Performance



Source: Allco Research Estimates, Bloomberg

Introduction to Lease Finance

What Is Leasing Finance?



- A lease is an agreement to convey the use of an asset for a specific time period in return for rental compensation.
- Leasing is a major source of financing in capital-intensive industries, such as transportation.
- Traditionally split into “Operating Leases” and “Finance Leases”.
- Operating leases usually have the following characteristics:
 - Shorter and more flexible term of lease
 - Lessor retains exposure to the residual value of the asset
 - Assets financed are off-balance for the lessee

Advantages of Operating Leases



- **Residual Value Risk.** Lessees can focus on their core business rather than managing assets.
- **Flexibility.** Operating can take advantage of temporary demand fluctuations with short-term leases.
- **Obsolescence Risk.** Updating leased equipment is simpler than selling one set of assets and purchasing another.
- **Capital Efficiency.** Operating leases can provide 100% off-balance sheet financing at a competitive cost of capital.

Investors have had limited exposure to operating leases and little quantitative analysis has been available.... Until now.

Market Overview

- **General:** USD 400 billion of assets.
- **Assets:** Typical useful life of 25 years. Cyclical values but predictable long-term returns.
- **Drivers:** Demand for global air travel, which is strongly linked to global GDP.
- **Leasing Market:** 30% of total market and growing. ILFC and GECAS account for 50% of the market. Lease terms usually between 5 and 10 years. Lessees are commercial airlines and air freight companies.

Sources: SH&E, Airline Monitor, Allco estimates

- **General:** USD 500 billion of assets. Greater transparency than aviation or rail.
- **Assets:** Typical useful life of 30 years. 3 major vessel types – tankers, bulk carriers and container ships. Volatile asset values, requiring expertise to manage.
- **Drivers:** World GDP and growth in world trade are both strong drivers.
- **Leasing Market:** Highly segmented with a large number of privately owned niche providers. Lease terms usually between 6 months and 5 years. Lessees are shipping companies.

Sources: Clarksons, Allco estimates

- **General:** USD 200-300 billion of assets. Regional markets, largest being North America.
- **Assets:** Typical useful life of 30 to 40 years. 8 or 9 major types of rolling stock. Asset values are cyclical, but long term-returns are predictable.
- **Drivers:** GDP of the rail region and growth in world trade. Competes with other modes of land freight transport. Superior economics once infrastructure is established.
- **Leasing Market:** 50% of US assets are provided by lessors and growing. Lease terms are usually between 3 and 6 years long. Lessees are major railroads and freight companies.

Sources: Mercer, Allco estimates

Performance

Performance - Industry Returns



Research indicates that operating leases generate solid absolute returns with a high cash component and low correlation to traditional asset classes.

Returns and Volatilities

	Aviation	Shipping	Rail
Returns (ungeared, p.a.)	8.3%	13.0%	9.3%
Volatility (ungeared)	3.3%	10.5%	4.3%
Returns (industry gearing, p.a.)	12.4%	22.2%	17.4%
Volatility (industry gearing)	14.9%	32.7%	14.1%

Correlations

Aviation	1.0		
Shipping	0.3	1.0	
Rail	0.7	0.5	1.0
Australian Shares	-0.0	-0.1	0.3
Global Shares	0.0	0.1	0.6
Global Bonds	-0.0	0.2	-0.1
Global Property	-0.0	0.3	0.4
Global Infrastructure	0.3	0.4	0.8*

Source: Allco Research Estimates

Residual Value Risk: is the risk that the asset is worth less than assumed in the pricing at the end of a lease. Managed by:

- Ensuring that assets are modern, well maintained and have a wide user base
- Diversifying by type of asset and maturity profile
- Using conservative pricing assumptions

Re-Leasing Risk: refers to the ability of a lessor to re-lease the asset under a range of circumstances and market conditions. Managed as per residual value risk.

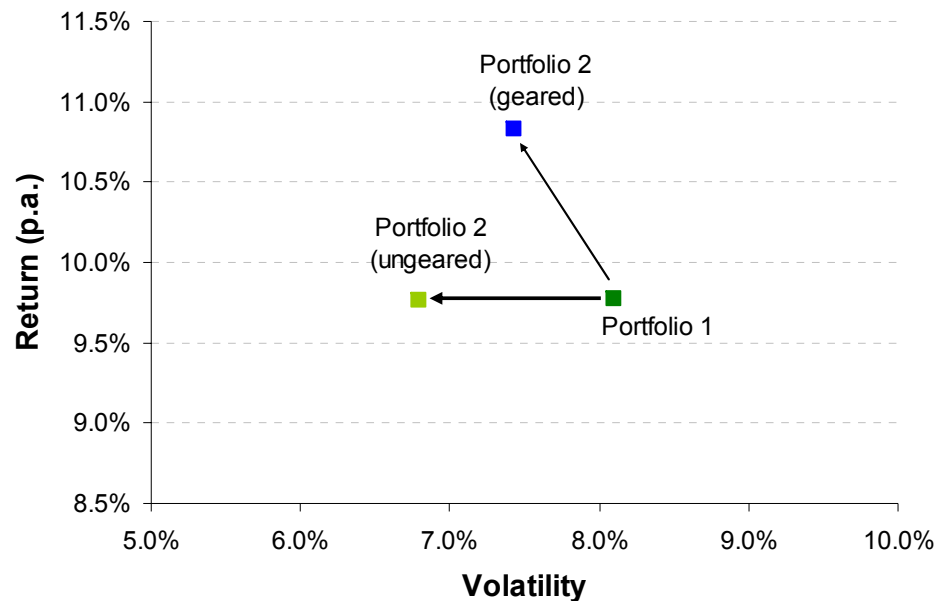
Credit Risk: deals with the potential for a lessor to lose income due to a default by a lessee. Managed by:

- Leasing to operators with a high credit rating
- Ensuring the assets are highly marketable

Performance - Portfolio Applications



Research suggests that an allocation to operating leases improves the risk and return profile of a balanced portfolio.



Asset Class	Portfolio 1 Allocation	Portfolio 2 Allocation
Cash	10%	10%
Global Bonds	40%	35%
Australian Equities	30%	25%
Global Equities	10%	5%
Global Property	10%	10%
Aviation Operating Leases	0%	5%
Shipping Operating Leases	0%	5%
Rail Operating Leases	0%	5%

Source: Allco Research Estimates

Summary

Operating leases:

- are key source of financing in transportation
- are growing their share of a growing market
- ... but have been difficult for investors to access.

Allco's research indicates that operating leases:

- generate solid absolute returns, with
- low volatility,
- a high cash component, and
- low correlation to traditional asset classes

These qualities make operating leases an attractive proposition to a wide range of managed portfolios.