

Capital Protection

Why does it have to be so hard?



Due Diligence Forum

Presented to PCF August 2009

Alpha Structured Investments

Dr. Tony Rumble

1300 769 694

www.alpha-invest.com.au

A large, stylized, light grey alpha symbol (α) is the central element of the logo.

ALPHA Structured Investments

*Scaleable Differentiation
for Innovative Investments*



After the GFC, investing
and financial planning will
never be the same again



ALPHA Structured Investments

*Scaleable Differentiation
for Innovative Investments*



Leading advisers:
Rebuilding Client Confidence
Restoring Client Trust
=

Capital Protection, Enhanced Return
Transparent Investment Strategies



ALPHA Structured Investments

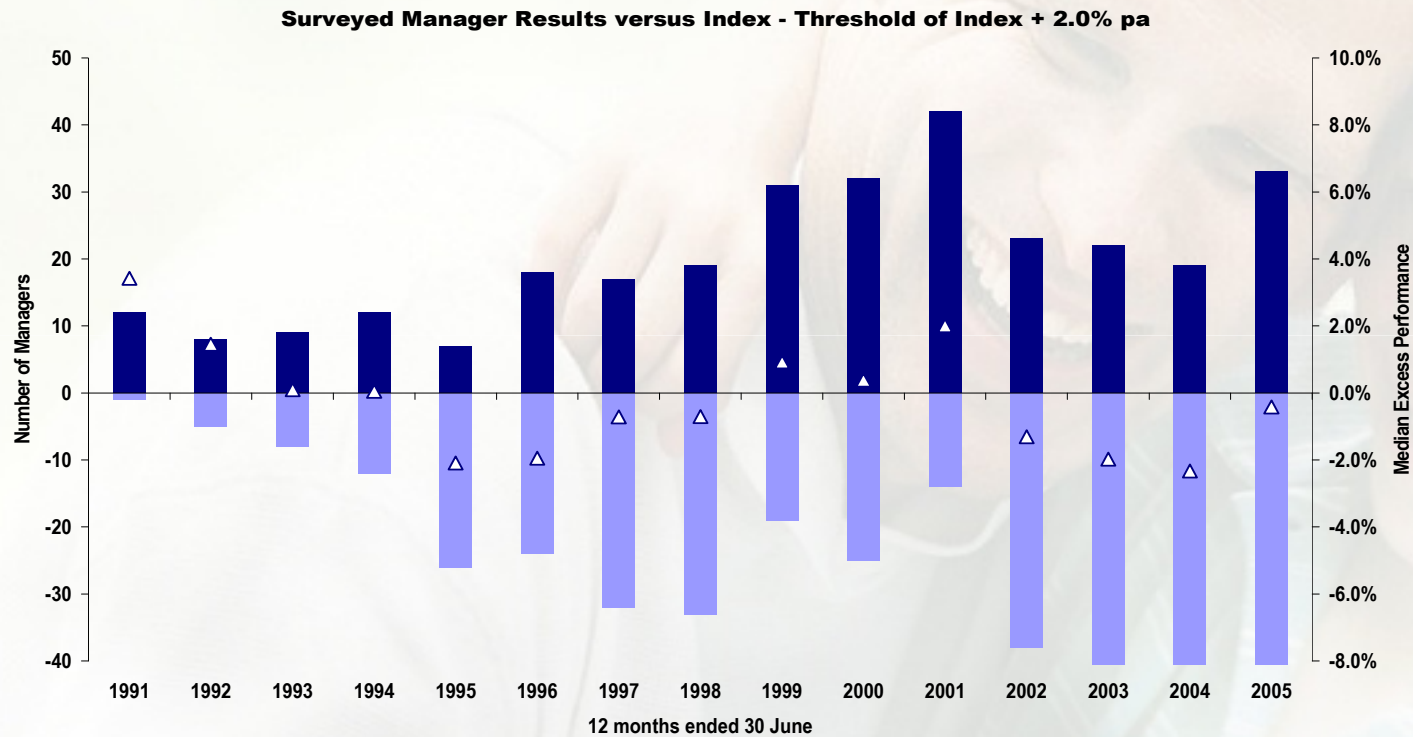
*Scaleable Differentiation
for Innovative Investments*

Why its an issue

- APRA June 09 active managed funds don't consistently add value
- Regulatory focus on fees and commissions
- Progressive planners use index, direct equities and boutiques
- Core + satellite, focus on "alpha" rotation including emerging markets
- Capital protection supports risk taking in satellite portfolio
 - Wealth accumulators including gearing
 - Pre and post retirement strategies
- Stress testing can inform selection of appropriate form of capital protection



Traditional managed funds underperform



Data Source: William M Mercer Specialist
Australian Shares, Active Universe

■ Above Threshold ■ Below Threshold △ Median Excess Return over Threshold



ALPHA Structured Investments

*Scaleable Differentiation
for Innovative Investments*

APRA Agree (June 09)

“...the average firm under-performed their net benchmark by 0.9% per year...this raises a question about the value of the active approach to risk management of investment portfolios and may support our doubt about the appropriateness of the Sharpe ratio in measuring performance...”

The net under-performance of the average firm appears more pronounced in down markets. This suggests either inactive risk management where investment managers appear to forego value adding opportunities in down markets or unsuccessful risk management in down markets perhaps due to costs...

The empirical data suggests that superannuation firms may be less efficient at using the tax credits from capital gains and losses than we have assumed...For example, excessive share trading could forfeit capital gains tax concessions which are available after a 12 month holding period.”

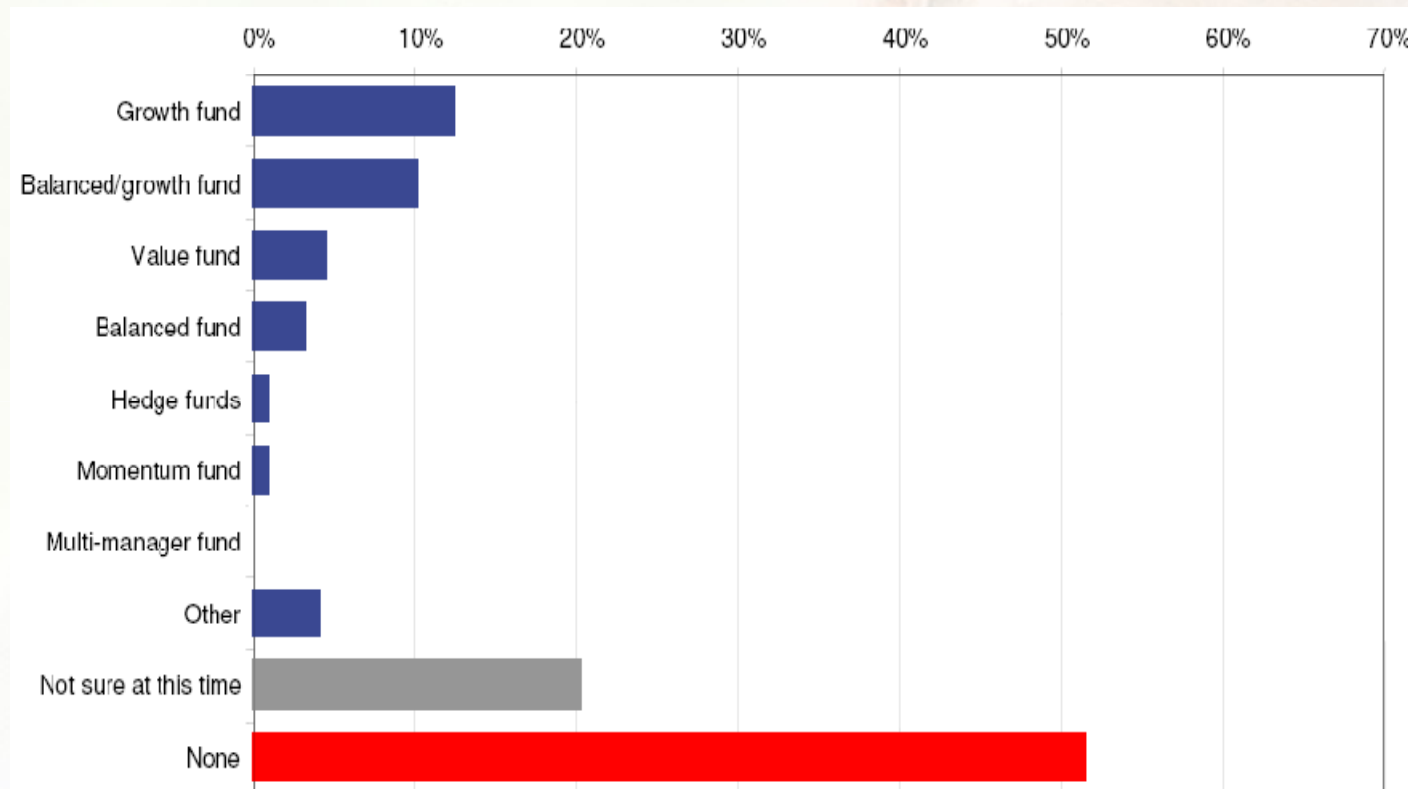


The problem is structural

- Pooled open ended investment funds manage for liquidity risk by seeking to outperform while closely tracking the most liquid share price indices
- High levels of turnover (up to 60% pa +)
- Market friction, taxes erode value add
- Vs demonstrable outperformance vs index via concentrated direct share investments



SMSF use of managed funds



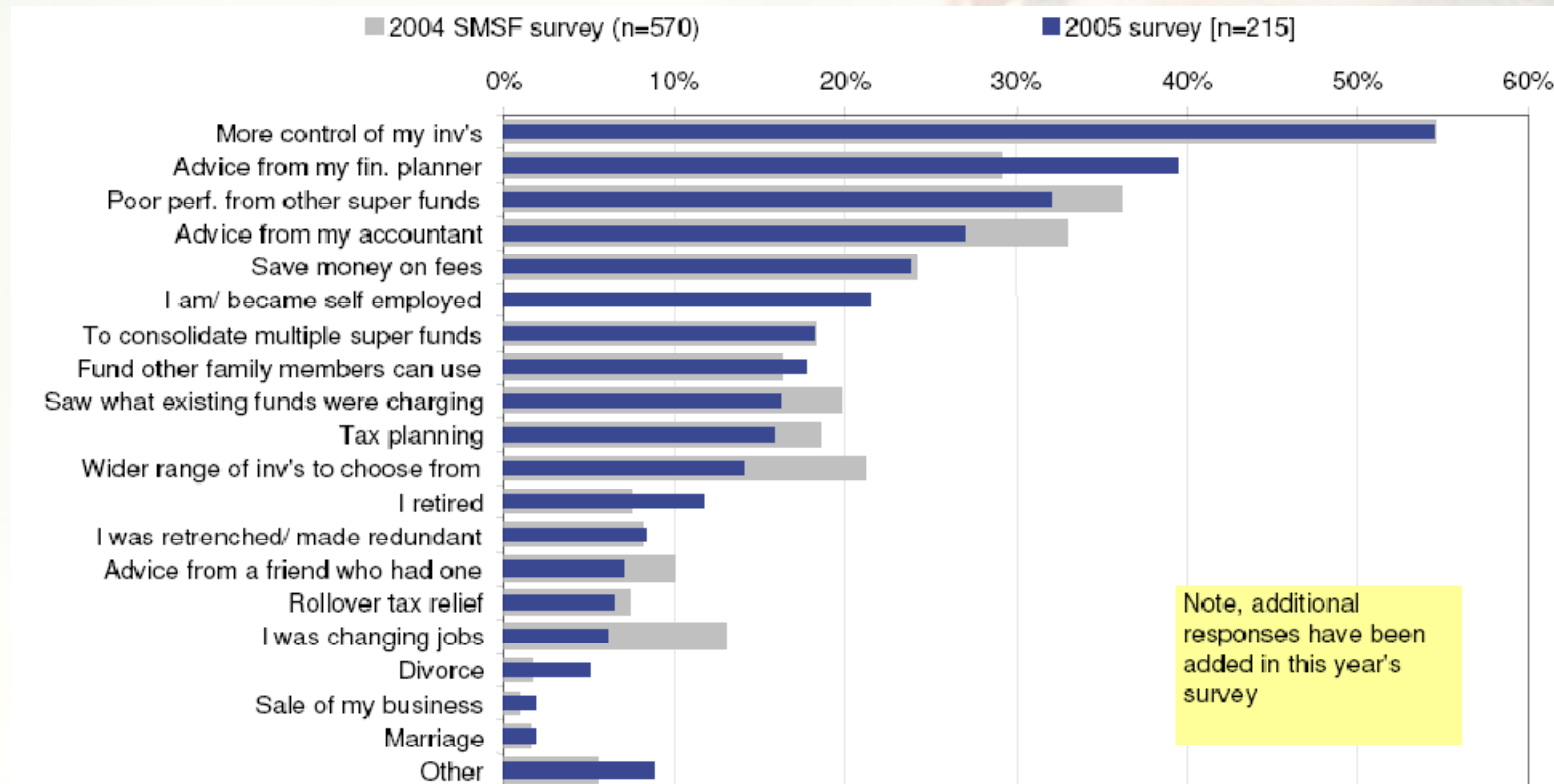
Source: Investment Trends, 2005



ALPHA Structured Investments

*Scaleable Differentiation
for Innovative Investments*

SMSF- rationale for establishment



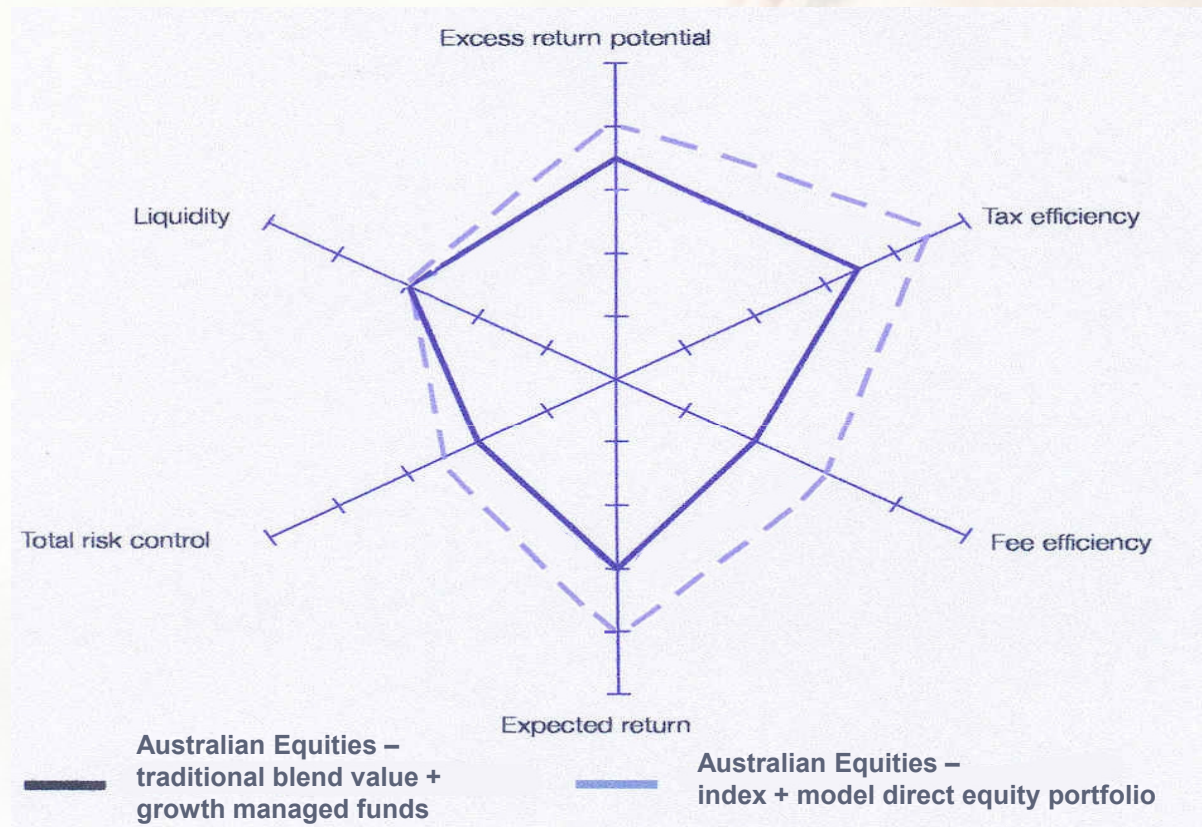
Source: Investment Trends, 2005



ALPHA Structured Investments

*Scaleable Differentiation
for Innovative Investments*

Six Dimensions of Portfolio Construction



Source: Credaro, MIML

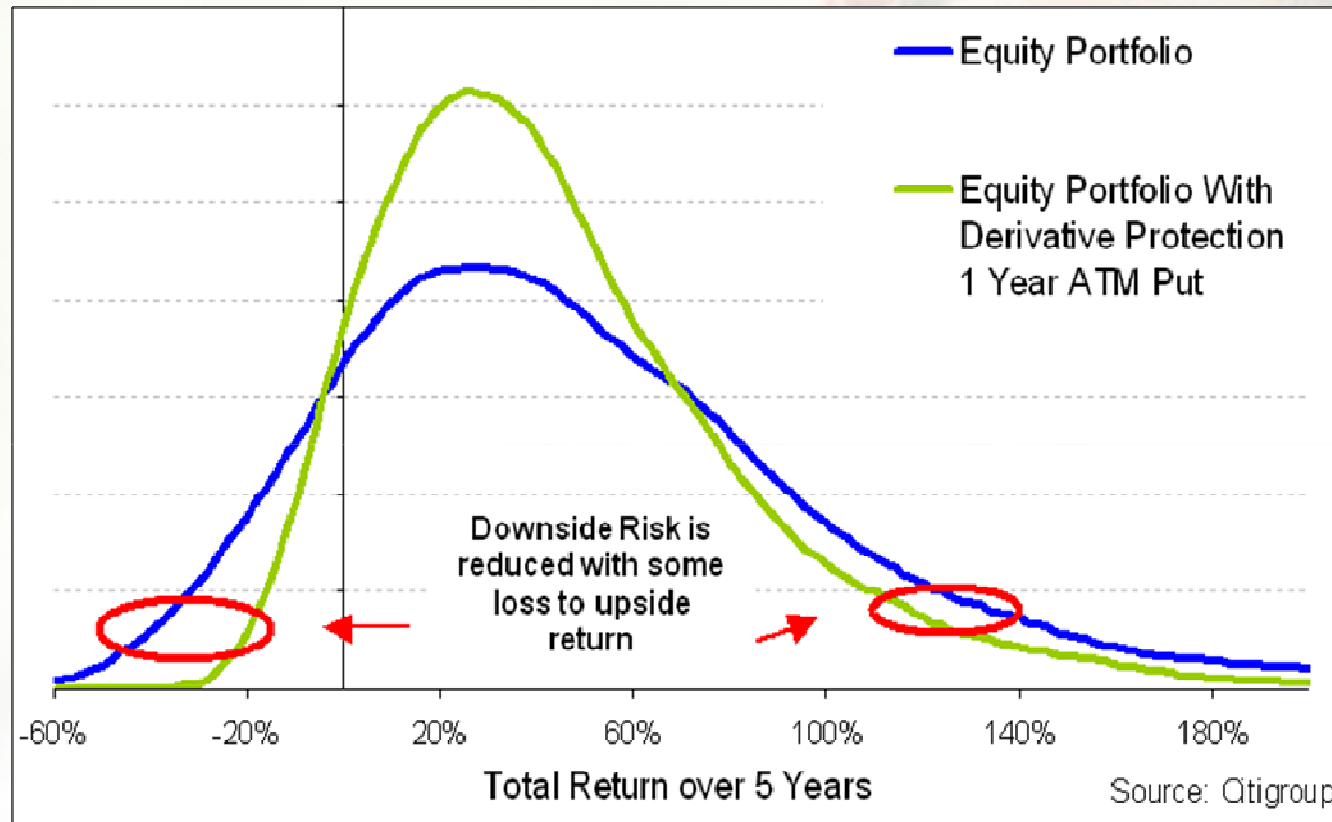
Global investment volatility

- GFC hastened the relative demise of developed nations and the rise of emerging markets
- BRIC, Asia, China, the “Next 11”
- High growth and likely durability of growth in the best of these
- BUT: socio-political and historical differences prevent/limit access for most investors
- Capital protection a key enabler for most investors





Method One: Put Options



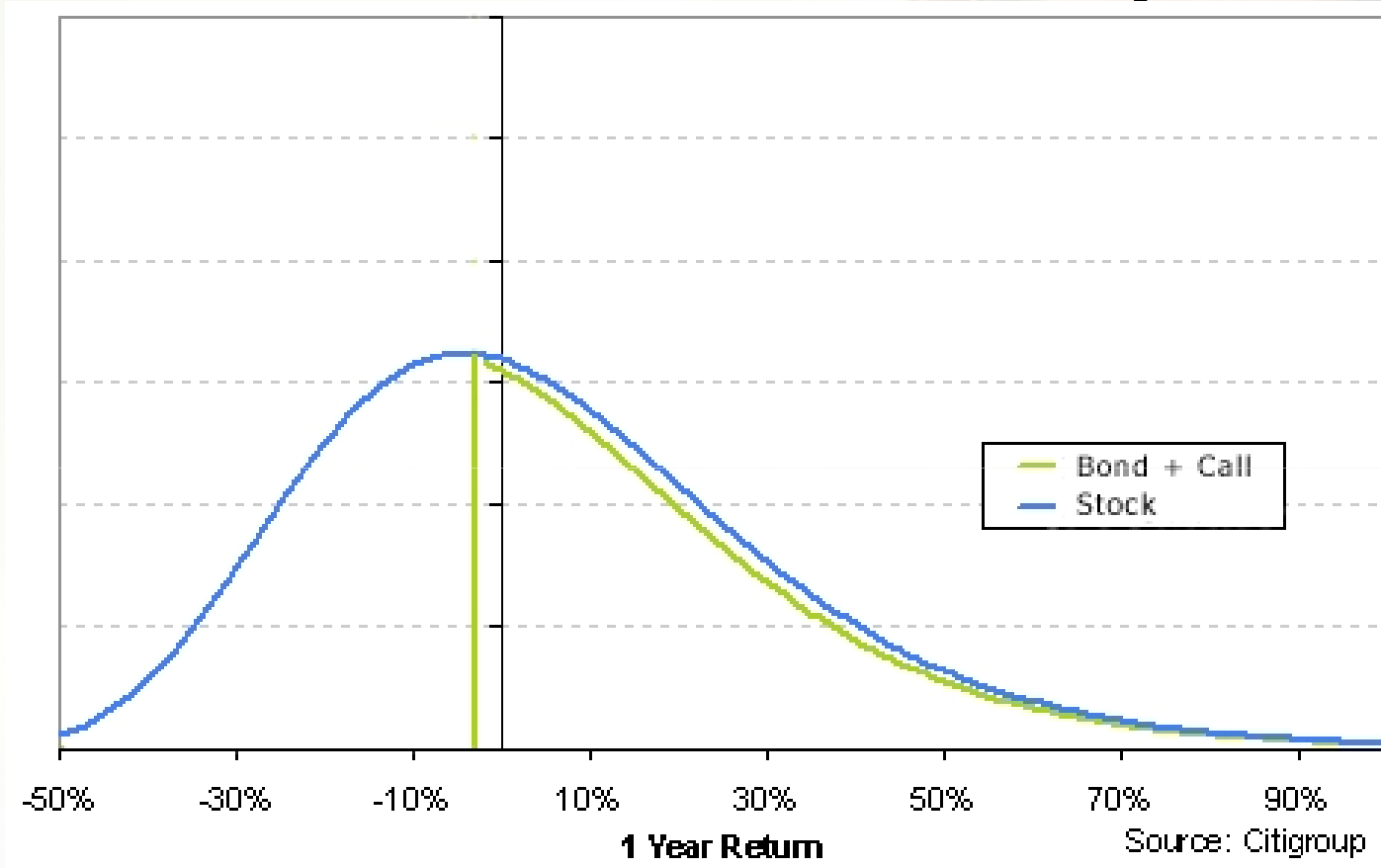
Dispersal of returns: combined put option and underlying equities
Put option strike is not at the money



ALPHA Structured Investments

*Scaleable Differentiation
for Innovative Investments*

Method Two: Bond + Call Option/s



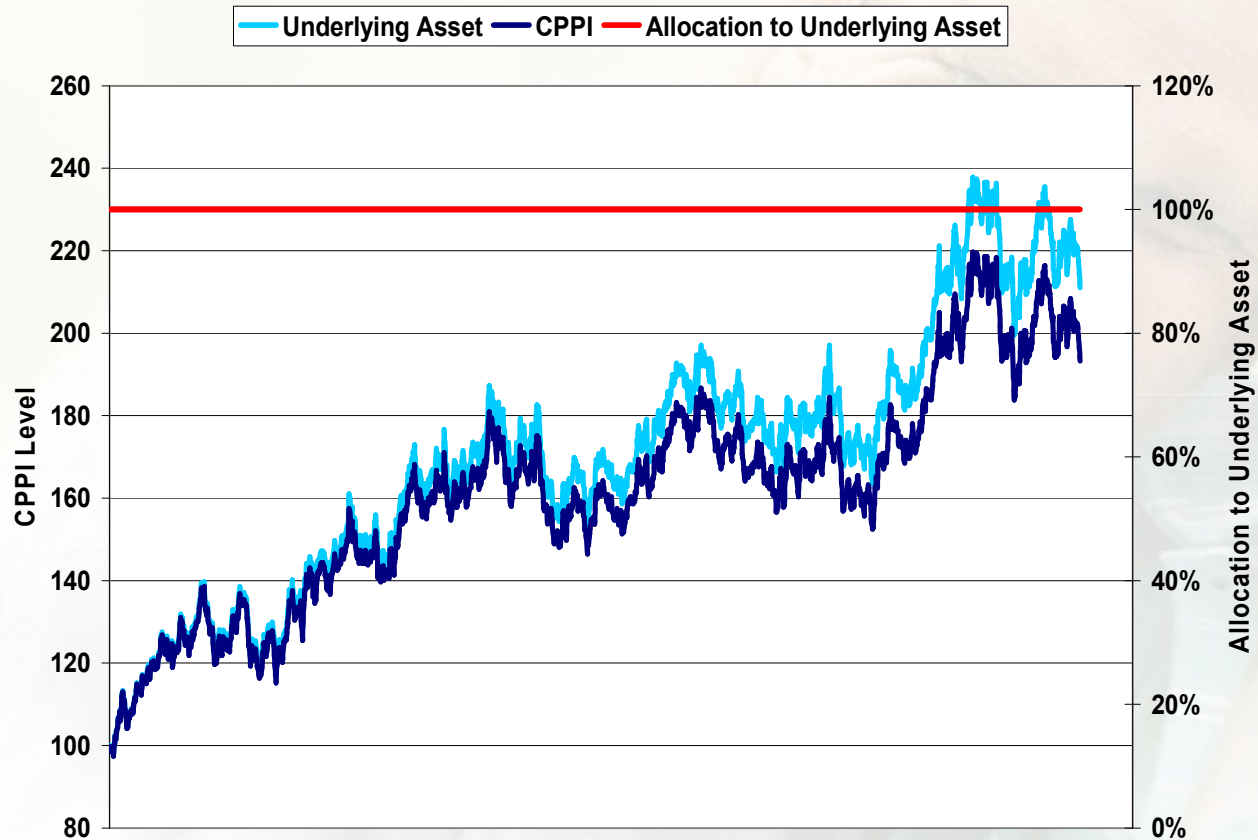
Dispersal of returns, bond + call vs stock
Bond + call product in this example does not pass through dividends from underlying shares



ALPHA Structured Investments

*Scaleable Differentiation
for Innovative Investments*

Method Three: CPPI – Works well in Rising Market



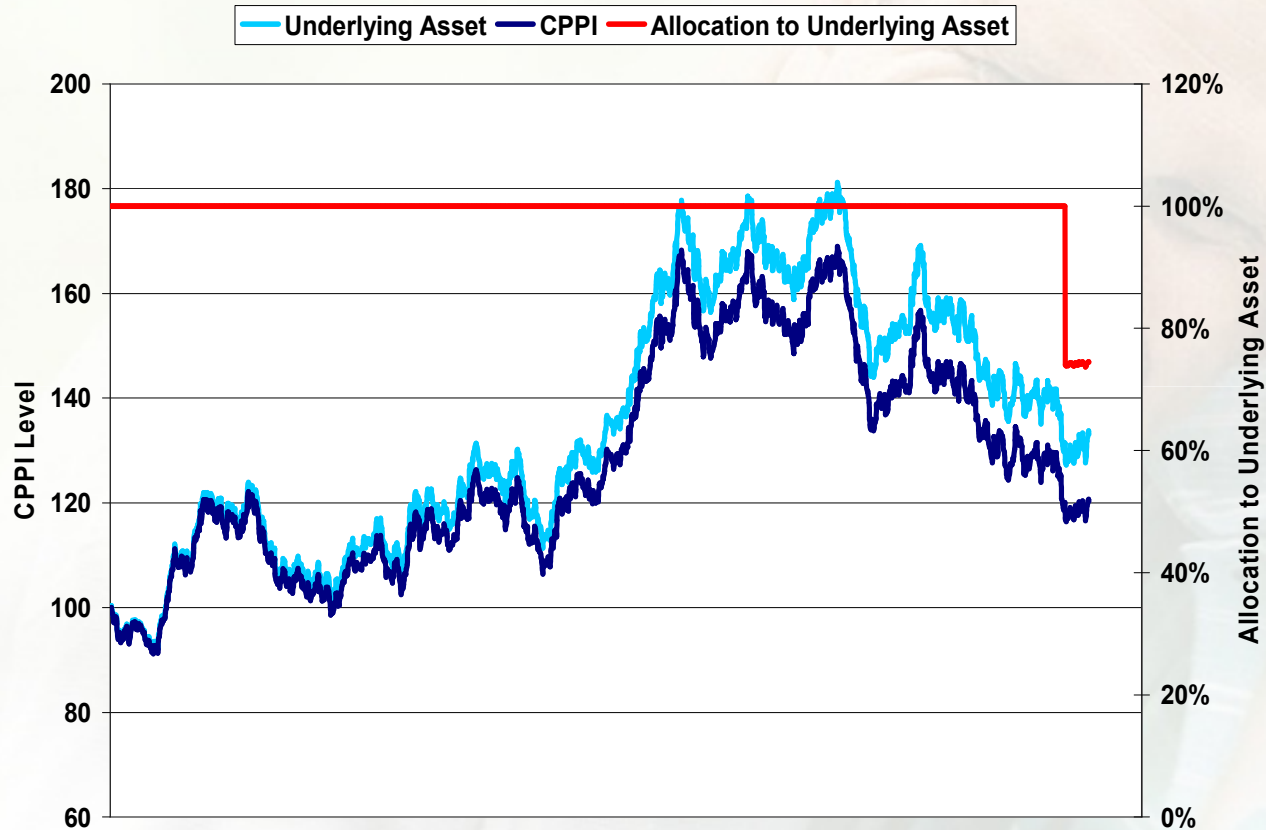
Source: Adviser Edge



ALPHA Structured Investments

*Scaleable Differentiation
for Innovative Investments*

Traditional CPPI – Works well in Up / Down Market



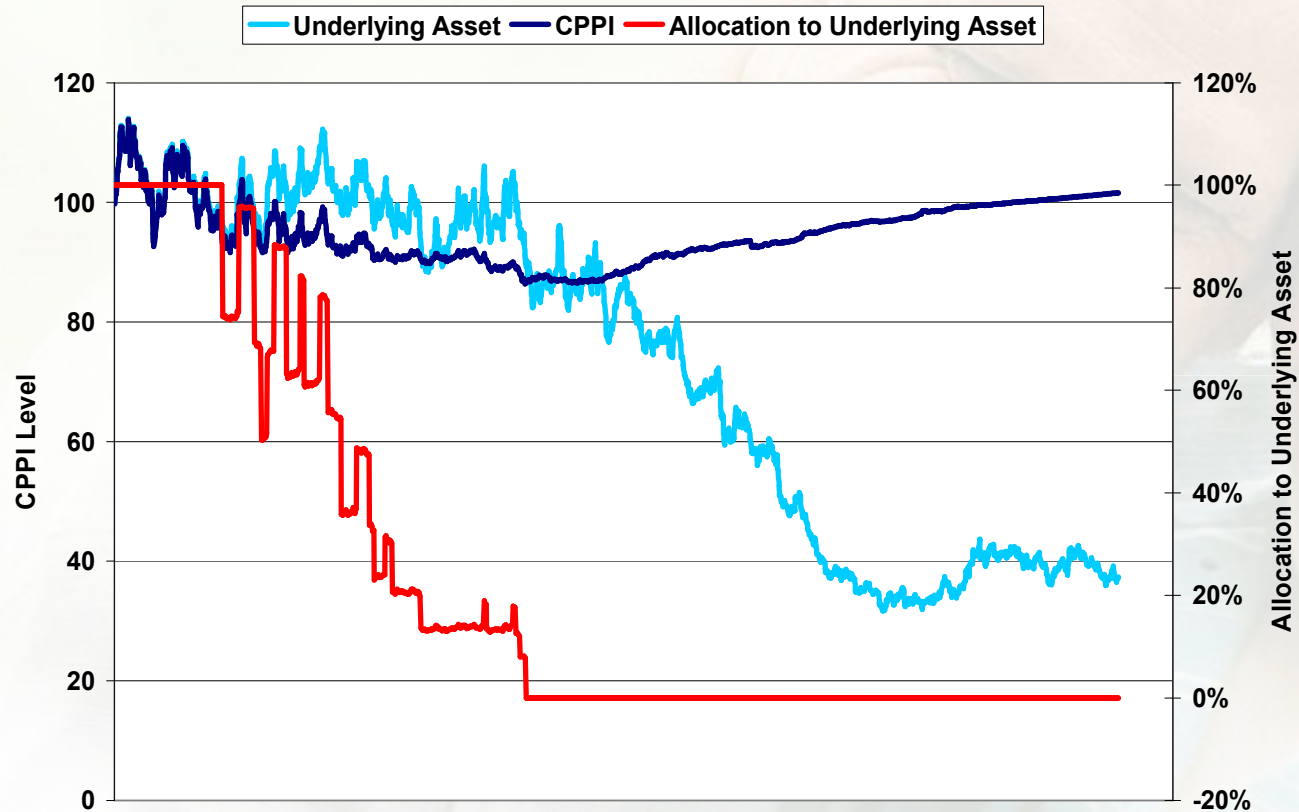
Source: Adviser Edge



ALPHA Structured Investments

*Scaleable Differentiation
for Innovative Investments*

Traditional CPPI – Protects capital but low growth in Falling Market



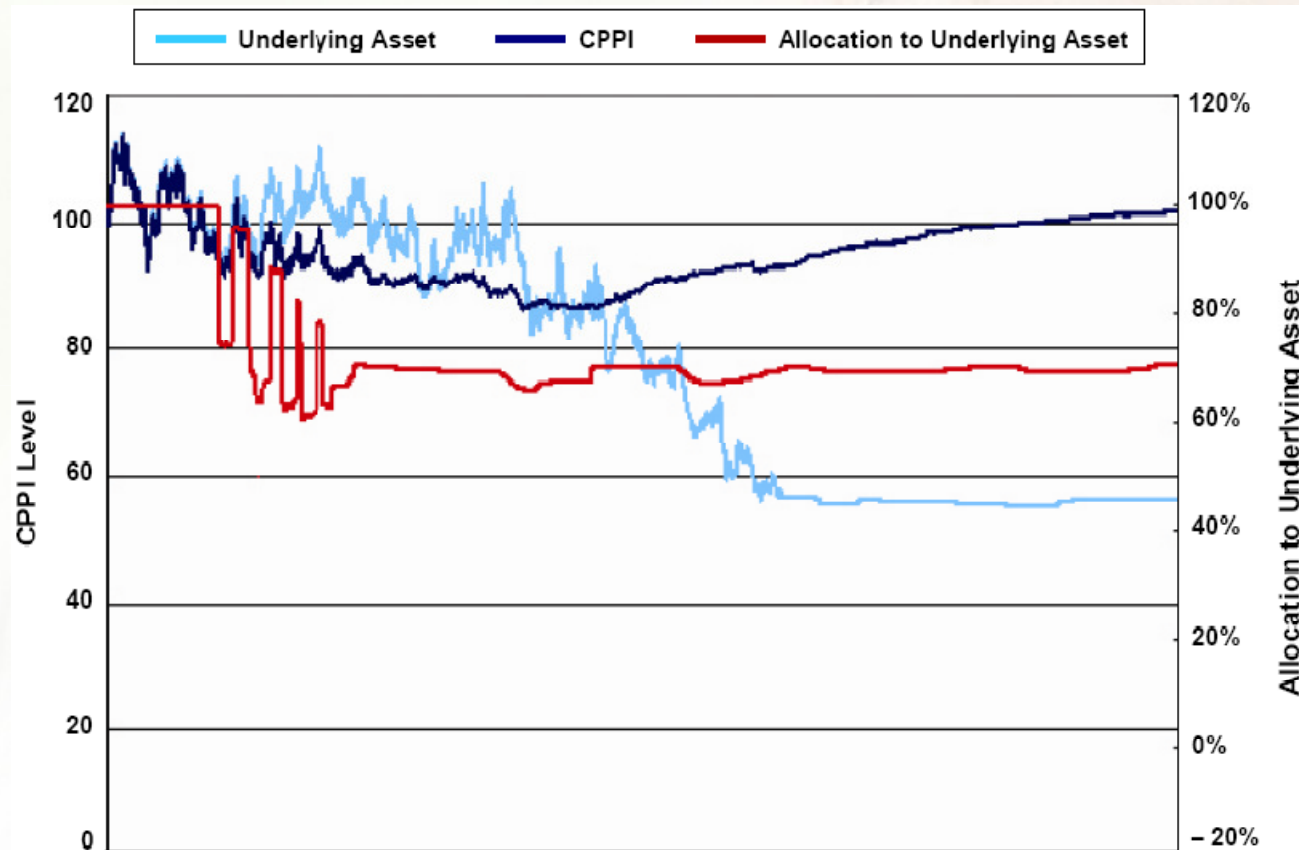
Source: Adviser Edge



ALPHA Structured Investments

*Scaleable Differentiation
for Innovative Investments*

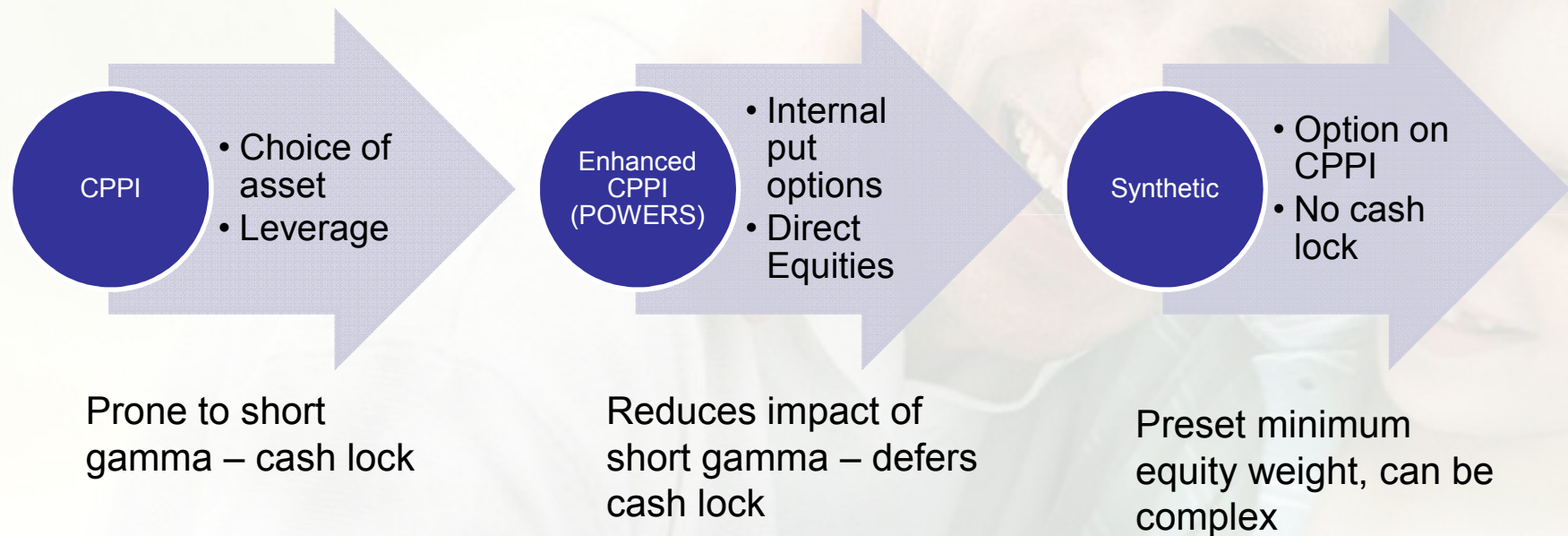
Enhanced CPPI



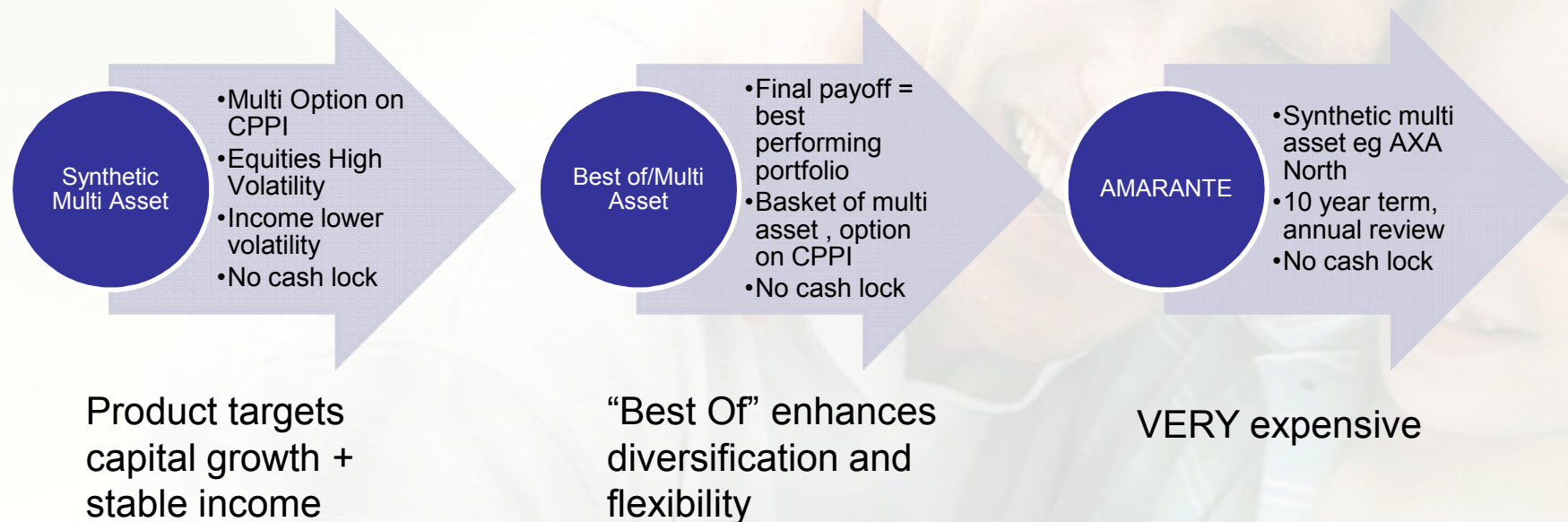
ALPHA Structured Investments

*Scaleable Differentiation
for Innovative Investments*

Capital protection trade off (1)



Capital protection trade off (2)



Solution – Alpha RESULTS

- Provides exposure to blue chip shares with choice of portfolio
- 12 month investment using current markets to earn:
 - High income of up to 20% pa* OR
 - Preset capital growth of up to 35% pa* AND/OR
 - Blend of income and growth
- Capital protection – stocks protected for falls up to 40% (Barrier Price 60% of Start Price)
- At maturity investor takes delivery of stock, either 100% of initial investment, or to value of stock if falls of 40% or more

*Check PDS for current pricing



ALPHA Structured Investments

*Scaleable Differentiation
for Innovative Investments*

What is Alpha RESULTS

- Investment is an ASX listed “Deferred Purchase Agreement” (DPA)
- Simply an investment agreement between the investor and the Issuer (Citi) to have exposure to basket blue chip shares, with conditional capital protection and
 - a set rate of income paid monthly AND/OR
 - Preset capital growth paid at maturity (subject to no barrier event)
- DPA is an agreement to take delivery of shares at the end of term (although can use cash settlement)
- ASX listed = daily liquidity



Disclaimer

(c) Alpha Structured Investments P/L AFSL 290054 ("ASI"). This presentation and any attachments is for the exclusive use of the person to whom it is provided by ASI and must not be used or relied upon by any other person. No representation, warranty or undertaking is given or made in relation to the accuracy or completeness of the information presented, which is drawn from information that may not have been verified by ASI. The conclusions, recommendations and advice contained are reasonably held at the time of completion but are subject to change without notice and ASI assumes no obligation to update this information. Except for any liability which cannot be excluded, ASI, its directors, employees and agents disclaim all liability for any error or inaccuracy in, or omission from, the information or any loss or damage suffered, directly or indirectly by the reader or any other person as a consequence of relying upon the information. Past performance is not a reliable indicator of future performance. Any express or implied recommendation or advice presented is limited to "General Advice" and based solely on consideration of the investment and/or trading merits of the financial products) alone, without taking into account the investment objectives, financial situation and particular needs ("financial circumstances") of any particular person. Before making an investment decision based on the recommendation or advice, the reader must consider whether it is personally appropriate in light of his or her financial circumstances or those of their client/s, and should seek further advice on its appropriateness. The information transmitted is intended for the person or entity to which it is addressed and may contain confidential or privileged material. Any review, retransmission, dissemination or other use of, or taking any action in reliance upon, this information by persons other than the recipient is prohibited. If you received this in error, please contact the sender and delete the material from any computer.



ALPHA Structured Investments

*Scaleable Differentiation
for Innovative Investments*

Disclaimer

© Alpha Structured Investments P/L AFSL 290054 - Like all investments, there is no return without risk. If there are losses in relation to Alpha RESULTS, the value of the shares delivered to investors may fall or be nil. Investors should read the Product Disclosure Statement for Alpha RESULTS dated 25 August 2009 and issued by Citigroup Global Markets Australia Pty Limited ("CGMA") in full and carefully consider the detailed description of the arrangements and risks in the Product Disclosure Statement ("PDS") before deciding whether to apply for Alpha RESULTS. Prior to the maturity of the Alpha RESULTS investment the value of Alpha RESULTS will be affected by various market factors such as interest rates, shares and option prices and volatility, the credit worthiness of CGMA and the time remaining to maturity. As a result and as indicated above there is no assurance that an Alpha RESULTS investor that sells their Alpha RESULTS investment prior to maturity will receive a price equal to or in excess of the Alpha RESULTS investors original investment amount. No conditional capital protection is provided to Alpha RESULTS investors if they sell their Alpha RESULTS investment prior to the maturity date. A copy of the Product Disclosure Statement can be obtained by contacting your financial adviser, stockbroker, Alpha Structured Investments or the Issuer. Like all investments, investments in the Alpha RESULTS involve some risks. The risks include general market risks and risks which are specific to Alpha RESULTS. Please ensure you have read and understood the Risk Factors which are set out in that PDS. No action should be taken on the basis of or in reliance on the information, opinions or conclusions contained in this document. In preparing the information in this document, Alpha Structured Investments did not take into account the investment objectives, financial situation or particular needs of any particular investor. Before making a decision to invest, investors should consider the appropriateness of the product having regard to their relevant personal circumstances. Investors should read the PDS in full and carefully consider the detailed description of the arrangements and risks in the PDS before deciding whether to apply for Alpha RESULTS. This document is not, and is not intended to be, an offer or invitation for subscription or sale, or a recommendation, with respect to any proposed offering of Alpha RESULTS or any other securities, nor is it to form the basis of any contract or commitment. Once you have read and understood the PDS you can apply by completing the Application Form in the PDS and sending it to your financial adviser or directly to Alpha Structured Investments. The minimum application amount is \$20,000 with multiples of \$5,000 after that. You should consult your investment adviser before you invest in Alpha RESULTS.



ALPHA Structured Investments

*Scaleable Differentiation
for Innovative Investments*

