Profit Protection Overlay (“PPO”) - Overview

FINANCIAL FACTORY

Introduction

• The purpose of the Profit Protection Overlay is to **protect unrealized profits while at the same time retain upside (downside) potential,** if the price of the asset continues in the direction of the initial non-protected position.

• The PPO is added as an overlay to an already present portfolio. See ’Format’ below.

• The overlay functions independently of used entry and exit rules for the individual underlying positions.

• As to time-frame, the underlying positions should be held medium- to long-term.

• Implementation is made with options, either exchange-traded or OTC from a Broker.

Investment Universe

The PPO enhances the results of investing in many types of assets, but is especially suitable for high volatility assets, typically high risk premium assets, like

- Emerging Markets Equities and Bonds.
- Small-cap Stocks.
- High-yield Bonds.
- A number of Commodities.

Format

The Profit Protection Overlay can be implemented:

- Directly in the current portfolio.
- As an individual account, a sub-portfolio.
- As a separate segregated portfolio in an offshore structure.

Management

• The PPO is managed by the portfolio owner on the basis of instructions from Financial Factory, or

• Financial Factory is given a limited Power of Attorney to manage, as an independent agent, the PPO for the portfolio owner.

Cash Utilization

• Typically less than 5% cash utilization on an aggregate portfolio level. Even lower if the PPO is applied to only a part of the portfolio.

• In general, less than 15%, seldom higher than 10%, of the underlying value of an individual position at the start of protection.

Performance Potential

• See an example of a High Risk Premium Portfolio on the next page.

Risks

• The risk of using the PPO is low and known at all times. Only long options positions are used.

• As long options are utilized, the risk of time decay, i.e. negative theta, is present.

Fees

• The cost of using the PPO consists of an initial setup fee of EUR 5,000 to EUR 25,000 per portfolio, depending on the complexity of the portfolio, among other aspects.

• Ongoing fees based on our general ’Value Based’-pricing policy, i.e. the portfolio owner remunerates Financial Factory on the basis of what it is worth to use the PPO. Payments are made quarterly.

• For additional details regarding the general Pricing Policy see financialfactory.com/pricing_policy.htm.

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Profit Protection Overlay

“ … participating in 'bubbles' on the way up, with rising prices, without giving back unrealized profits when the bubble bursts.”

Profit Protection Overlay (“PPO”) - Potential

Introduction

• This example shows the effect of using the Profit Protection Overlay on a **High Risk Premium Portfolio**.

• The picture above right shows the basic PPO-mechanism for this portfolio and the chart below to the right shows performance indexes for the portfolio with and without the PPO applied.

• An extensive report package with additional analysis and details is available.

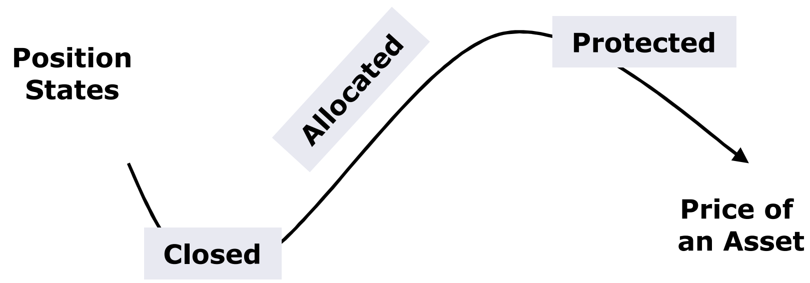
Investment Universe

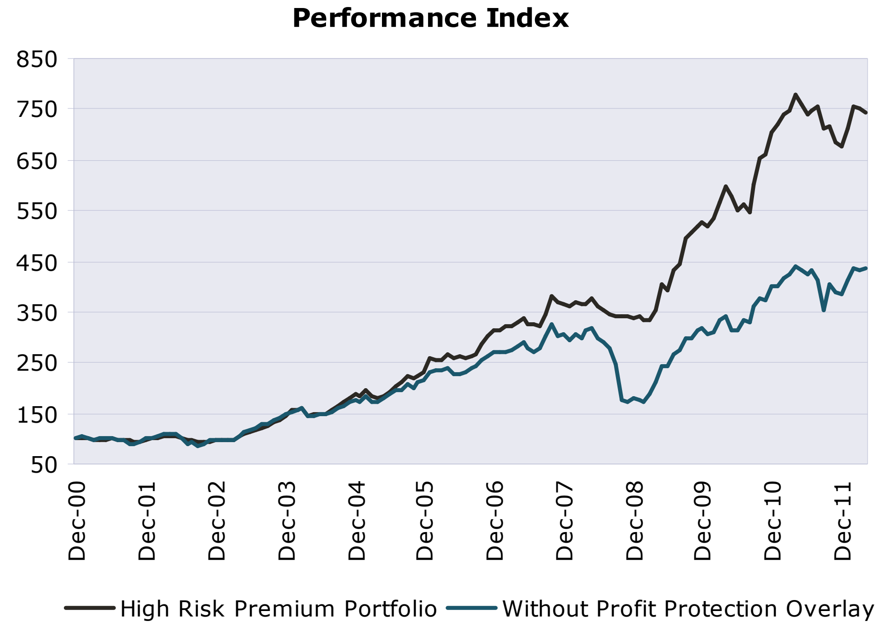
The portfolio consists of 17 assets and asset classes, e.g.

- Commodities (CO): Crude Oil, Gold, Silver.
- Equities (EQ): Emerging Markets broadly, Latin America, US Small-caps, individual countries, like Russia, Taiwan, Brazil, Mexico.
- Fixed Income (FI): High-yield Bonds, Emerging Government Bonds.
- Real Estate (RE): US.

Allocation

The allocation to the different assets and asset classes is determined on the basis of a Risk Parity-approach, whereby lower-risk assets receive a higher allocation and vice versa.





Disclaimer: Pro forma and hypothetical performance results have many inherent limitations, some of which are described below: no representation is being made that any trading account will or is likely to achieve profits or losses similar to those shown. In fact, there are frequently sharp differences between hypothetical performance results and the actual results achieved by any particular investment strategy. One of the limitations of hypothetical performance results is that they are generally prepared with the benefit of hindsight. In addition, hypothetical trading does not involve financial risk, and no hypothetical trading record can completely account for the impact of financial risk in actual trading. For example, the ability to withstand losses or to adhere to a particular investment strategy in spite of trading losses are material points which can also adversely affect actual trading results. There are numerous other factors related to the markets in general or to the implementation of any specific investment strategy which cannot be fully accounted for in the preparation of hypothetical performance results and all of which can adversely affect actual trading results.