Funds Focus®

$4.00

Issue 3, November 2008

Protection in Volatile Times

Our aim is to give you…..

Value, Information & Clarity

The last few months have certainly been tough for investors. What started as uncertainty in the markets turned bloodshed when the near collapse of a couple of major investment banks and AIG who underwrite many of the financial derivatives brought about the realisation of just how intertwined global credit, financial institutions and investment markets really are.

As a result, what started as uncertainty surrounding financial institutions became uncertainty around the economy as a whole. Governments have since injected huge cash sums and cut interest rates in an effort to ensure that the financial backbones of their economies do not fall.

This should provide comfort to investors. The fact that the major financial economies are willing to dig deep and coordinate their efforts in an attempt to minimise the impact of what is really a global credit restructure means that we are already taking steps towards recovery.

Having seen many of the equity markets fall by half their value, investors are naturally reticent about further investment into sharemarkets. This month considers the psychology of our investment decisions and whether we are doomed to make the same mistakes?

Looking for certainty

I have recently spent a lot of time looking at the whole area of structured products and in particular, those offering capital protection. My initial thoughts were that since the ASX 200 has just fallen by over 40% over the last 12 months (to the end of October), why would you look for capital protection? Surely the time for protection is when the market is high? Yet investors can't seem to get enough of these products, so it must be fulfilling a basic need for us?

On face value it seems odd that the hardest time to sell capital protection is in the middle of a bull run, yet we can't seem to get enough of them when the markets have fallen.

However, it's the certainty we require in uncertain times that capital protected products are able to provide that make them an attractive proposition, allowing us to invest in a discounted market when we would normally find ourselves sitting on the sidelines watching the window of opportunity pass us by, too cautious to dip our toe in the market.

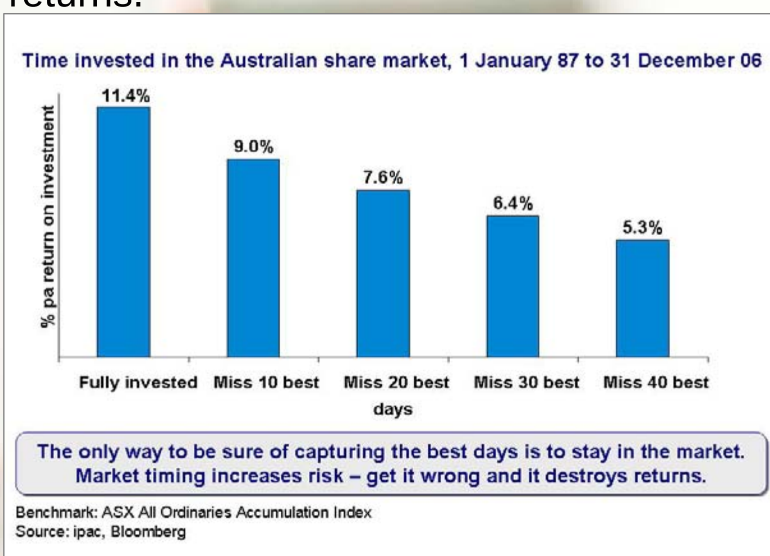
This issue looks at the whole raft of capital protected products that have flooded the market, how to distinguish between them, some of the potential pitfalls and whether they can add any value if the market has bottomed out already?

Funds® FOCUS

Where to next?

Short term predictions can be a bit of lottery at the moment but with the ASX 200 sitting at 40% the level it was a year ago, you can be rest assured that whatever level you buy in at, you're getting it at a much lower cost than 12 months ago.

Choosing when to invest, or 'timing' the market, is impossible to predict yet its one of the most important factors in determining the return on your investment. Missing out on even a day or two, can significantly impact your long-term savings. That's why you find most industry experts quoting that it's the Time in the market that's going to yield you the best returns.



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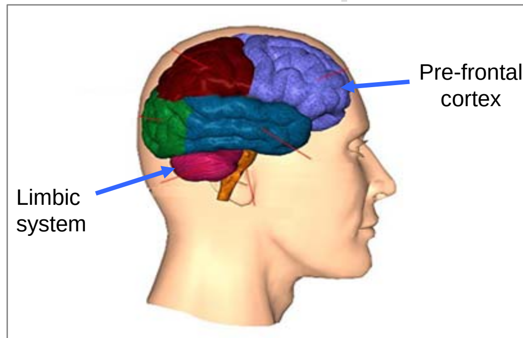


With investors seeing the investment markets moving more in a day than in a whole year, the mental uncertainty this creates means that investors can find themselves sitting in the sidelines watching the window of opportunity pass them by. We find it very easy to throw money at the markets when times are good but are reticent to invest when the market has fallen and prices are low.

I've been giving a lot of thought to the psychology of investing and why we have a tendency to repeat the same mistakes, buying high and selling low? Why do we find it so difficult to buy the same investments, now costing half as much today as they did a year ago?

Emotional Investing

The simple answer is we are all emotional investors. What many of us don't realise is that the hard wiring of our brain disadvantages us in some ways when it comes to making investment decisions. Our rational logical centre is dealt with in the front of our brain (pre-frontal cortex), whilst the Limbic system, located at the back of the brain, deals with both motivation and emotion. This means that our decision making process is much more likely to involve emotional input leading to us buying when we get excited at market peaks and selling as fear sets in when markets start to fall.

Creating the bubble

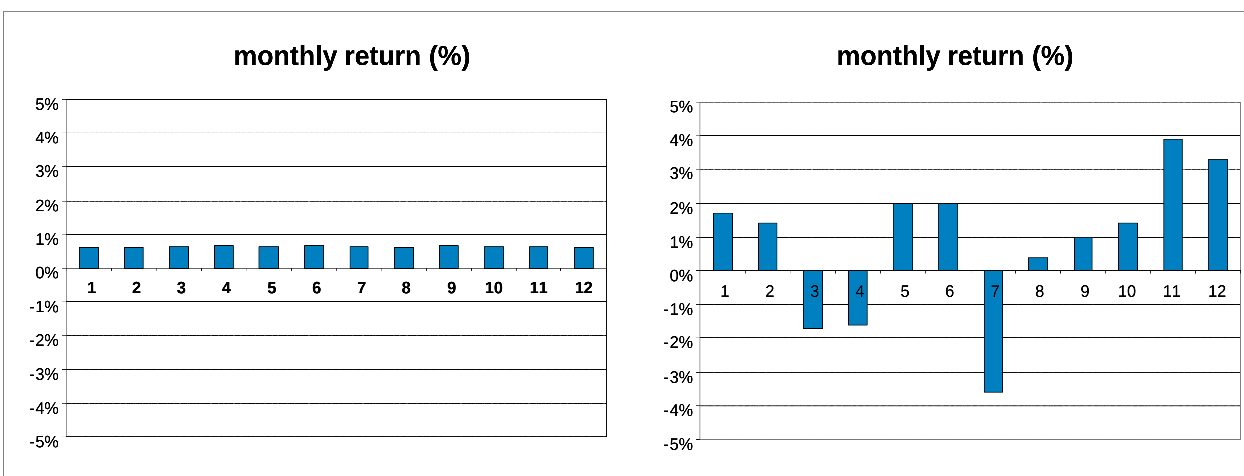
We also have a tendency to "Herd", inadvertently getting caught up in the actions of those around us. It's perfectly natural to want to "dip your toe" when your neighbour, colleague and best friend have all made a quick buck and are encouraging you to do the same.

Multiply this by thousands of investors each reaffirming each other's decisions and you have the makings of a bubble. The same thing happens when the market is falling, we sit tight on investments that we should have sold out of because we have become emotionally attached to them and only sell out when everyone around us is doing the same. The exact opposite of what we should do.

Research in the US in 2007 showed that over a 20 year period investors using the typical "Fear and greed" strategy only achieved a 4.3%pa return, yet a "Disciplined" strategy achieved 11.8%pa return.

Looking for a sure thing

Consider which of the following investment scenarios you would choose?



Financial Advice

Listed Property: Despair or a new dawn *Turn to p.5*

The psychology of investment – Are we forced to repeat the same mistakes? cont..

A return of 10% pa (on the right) is the logical solution, yet the 5% pa (on the left) is the one we tend to favour. This is because we naturally favour certainty particularly in times of stress as its easier for us to comprehend.

Whether you are a DIY or professional investor, you will be affected by these irrational investment choices and helps to explain why many of us feel that we can beat the market. Professional managers have a whole range of sophisticated indicators in place to overcome this problem. As DIY investors we need to recognise that we will feel this way and structure our investments in a manner to stop our natural "Fear and Greed" instincts.

So if we're hard wired to make the same mistakes, what can we do to stop ourselves falling into the trap of buying high and selling low?

Just being aware that we have a tendency towards emotional investing can help influence your decision making. This then allows you to question whether you are making a decision based on logic or emotion.

Diversify your investments across a range of asset classes. Many of us understand that diversification allows you to reduce your risk but don't necessarily understand how poor diversification compounds our urges to buy high and sell low.

We all understand that different asset classes perform better at different points in the cycling of the market, e.g. bonds typically do well when equities do poorly. By structuring your portfolio with a mixture of asset classes, you can achieve higher returns by removing some of the volatility thus ensuring we don't panic sell at the wrong time or find ourselves in a margin call.

Understand your own risk profile and structure your investments accordingly. In portfolio construction, the rule of thumb is higher risks typically lead to higher returns. Not many investors are too concerned about achieving a greater than expected return when they're in assets that are too high risk for their profile. However, higher peaks also lead to lower troughs and once again we find ourselves selling out of an investment that may be following its natural cycle.

Our online risk profiler can help you decide where you lie and offers suggestions on a suitable asset allocation. www.fundsfocus.com.au/managed-funds/risk-profiling.html

Consider capital protected products. By appealing to our tendency to favour certainty, these products can give us the impetus to invest at times when the market is low or remain invested in a fall. By removing the fear associated with investing or remaining in the market, we are able to make logical investment decisions without the impact of our emotional brain. We have covered this area extensively in this issue and how to differentiate the various product structures available.

Make regular payments instead of a lump sum payment. Planners talk about dollar cost averaging as a way of buying more units when prices go down. I have never understood the benefit because the opposite is also true. However, I do understand the psychological benefit in using a regular payment strategy and this is one of the keys to ensuring we feel good about our investments and that we buy at lower prices.

If we pay on a regular basis and the market rises then we feel good that we were clever enough to have invested already. If the market falls then we feel good that we are buying at lower levels. Either way, regular contributions ensures that we remain invested which any hardened investor will tell you is one of the best ways of achieving the best returns.

Back to Basics

Capital protection

Turn to p.8

A-REITS: Despair or a new dawn?

Andrew Reeve-Parker, Director of NW Advice, offers his insight into the listed property sector

The Australian Real Estate Investment Trust (A-REIT) index is down 59.6% on a rolling 12 month basis. With intra-day swings in excess of 10%, the conservative landlord image is not washing with spooked investors.

As tracked by the SPDR exchange traded fund, SLF, the trailing yield is 16.6%. Unfortunately trailing yields are not going to be accurate in the short term as property trusts are in the midst of raising capital, reducing distributions in line with earnings and deleveraging.

Current broker research suggests that distributions will be cut by 12% from December 2007 through to June 2009. Playing it safe, you can cut a further 26% due to the significant capital raisings and arrive at a distribution of 38% lower than June 2007.

At the current index level of 980, this translates to an earnings yield of 9.2%, an extremely healthy yield when cash and inflation rates are trending down. It is important to remember that approximately 85% of property trust earnings come from the sedate role of collecting rents.

Given that the economy is slowing, there may be a short term spike in vacancy rates however the long term fundamentals remain in place.

So the question is how quickly can A-REITs grow their earnings?

Historical analysis suggests that due to the cost of depreciation, growth should be just below inflation. With the addition of prudent gearing and development profits, growth in distributions are likely to resemble this:

Forecast of distribution growth in A-REITs

	Growth (% pa)
Rental growth	2.5
Less impact of depreciation	-1.0
Underlying earnings growth	**1.5**
Add impact of gearing	0.5
Less impact of acquisitions and corporate activity	0.0
Add impact of development profits	0.5
Distribution growth forecast	**2.5**

Source: farrelly's

"Our index return forecast for the next ten years is 14.3% per annum"

Australian Listed Property Trusts - 10-year forecast

	Central forecast (%pa)	Pessimistic forecast (%pa)[4]	Really pessimistic forecast (%pa)[5]
Current yield	9.2	9.2	9.2
plus growth in distributions	2.5	-1.5	-5.9[6]
plus impact of valuations	2.6[1]	0.2[2]	2.0[3]
= Forecast return (%pa)	**14.3**	**7.9**	**5.3**
less inflation	2.9	3.2	1
= Real return (%pa)	**11.4**	**4.7**	**4.3**
Yield in 2018	7.1[1]	9.0[2]	7.5[3]

1. A yield of 7.1% in 2018 contributes to a 2.6%pa rise in returns over 10 years. 2. A yield of 9.0% in 2018 contributes to a 0.2%pa increase in returns over 10 years. 3. A yield of 7.5% in 2018 contributes to a 2.0% rise returns over 10 years. 4. 1 in 20 real worst-case return 5. 1 in 50 real worst-case return. 6. A further 45% fall in distributions.

At the current index level, even under a really pessimistic scenario of a 45% drop in distributions, the real return from property trusts is healthy under the assumption that inflation will also drop in such a scenario.

We are currently adding to A-REIT holdings for our clients. Investors should consider doing the same.

The market may sell off more but the yield pays you to hold them in the short term whilst waiting for a correction to the upside.

A further strategy that you can consider is to sell a put option over SLF, in the anticipation that you will purchase the shares and pick up a healthy premium (yielding circa 38.43% pa annualised for a one month exposure) due to the current volatility in the market.

Source: www.asx.com.au as at 28th October 2008 & farrelly's Investment Strategy Handbook September 2008.

NW Advice is an independently operated, non-aligned financial planning practice offering fee for service advice. Any opinion and recommendation within this newsletter by NW Advice are independent of our own views and should not in any way be construed as personal advice.

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Turn to p.14

MACQUARIE

PROPERTY INCOME FUND

This fund is aimed at investors looking to amplify returns from the property sector and should be considered higher risk than a standard listed property fund.

Fund Manager Interview

As the top performing fund in the 4 years to June 2007 and boasting a return of 27.8%pa, the MPIF has fallen more than most.

We question Leo Economides as to the reasons behind the fund's lacklustre performance and whether this represents an opportunity for investors in this sector.

Manager: Leo Economides

MACQUARIE

What has happened is that the market has over-corrected.

It looked cheap in March 08, cheaper in June 08 and even cheaper now.

What is your overall aim for the fund and how does your fund differentiate itself?

The fund is one of the few domestic geared property securities fund in the market and as such, it is designed to use the gearing to provide investors with outperformance over the long term. The fund aims to pay a high after tax income, as a result of the fact that the underlying managers are mainly active (ie they trade securities to generate profit, which we in turn distribute).

We've seen a dramatic fall across global equities due to the credit crunch. Why have LPTs, an asset class that is by considered by many to be relatively stable, been hit harder than other sectors?

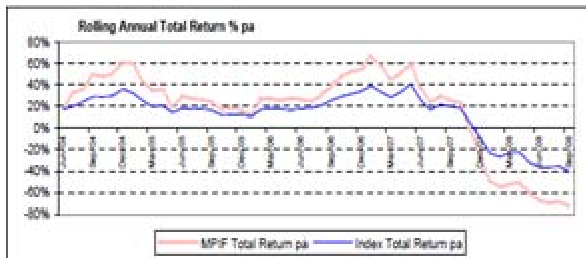
You are right in that LPTs are considered stable. The largest falls previously in the LPT sector were more like 20% during the 1987 stock market crash. Since the recent credit crunch, debt is harder to obtain and the cost of borrowing increased despite interest rates falling, which has in turn led to a fall in prices for LPTs.

Furthermore, LPTs became overpriced from the end of 2006, with considerable offshore funds pushing up LPT prices. Assuming that the market was 20% overvalued around that time, some correction was likely - but a 60% fall has surprised everyone in the market.

If the problems are mainly with US lending then why have Listed Property Funds in Australia fallen so dramatically?

What has happened over the last few years is that additional risk has crept into the sector as a result of; 1. Higher levels of gearing, 2. Increased offshore exposure and 3. Some LPTs earning significantly more of their profits from business activities.

The sudden credit crunch highlighted these increased risks and the market has brought the LPT prices down as a result.

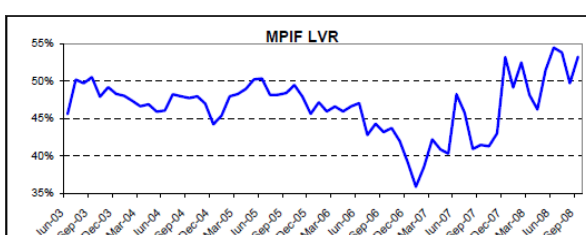


I note that your fund has fallen by over 70% in the year to 30th September, that's quite a significant fall. A lot of our readers have exposure to your fund, could you explain how this has come about and how does this compare to the overall sector?

It's important to note that MPIF's internal gearing magnifies returns and losses.

MPIF performed well in its first four years. LPT prices were going up and the target gearing of 50% in MPIF enhanced the returns. When the LPT sector fell, (by 60% over the last year) this worked against us.

During 2007, MPIFs gearing was reduced to 35%-45%, in recognition that the LPT sector was overvalued. With the fall in LPTs our active gearing management has brought this back up to 45%-50%, and whilst it is still detracting from returns in a down market, individuals are not burdened with their own margin loan or passive gearing strategy (both of which are full recourse to the borrower).



Fund Manager Interview

Macquarie Property Income Fund

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MACQUARIE

PROPERTY INCOME FUND

This fund is aimed at investors looking to amplify returns from the property sector and should be considered higher risk than a standard listed property fund.

Fund Manager Interview – Continued.

Your fund has produced a good income stream for investors since its launch in 2003. With distributions typically around the 13-15% and some years as high as 36%, why have you recently suspended distributions?

Surely if the underlying investments in property are receiving the same rent, distributions should be the same?

During the first 4 years of the fund distributions have been high. This was a result of a combination of low interest rates, high distributions from LPTs, significant capital gains being distributed by our underlying managers (MBL and CSAM) and of course, the gearing.

Over the last 12 months LPT values fell, interest rates rose and there were virtually no capital gains distributed by the underlying managers.

Also, many LPTs have in the recent reporting period, re-based their distributions to more accurately reflect core earnings, rather than one-off or business profits, reducing distributions for the sector as a whole by around 5%-10% over the previous year. Subsequent to that, some LPTs also changed their distribution frequency (ie quarterly to half yearly or annual) creating a short term impact on cash flowing in.

For the September 2008 quarter, MPIF paid no distribution for the first time. This is a direct result of sticking to our policy of collecting the distributions received by the underlying managers, paying interest (for the internal gearing), some of the fund costs, then distributing the balance.

Whilst we cannot say for certain, we feel this is a one off, rather than the fund not paying future distributions.

In light of all the turmoil in the market what changes, if any, have been made to the fund?

Firstly we have looked at our gearing model, which has served us well for the last 5 years. We have concluded that the model is fine, but that we need to apply a Gearing Overlay to make adjustment in extreme market circumstances. At the moment the Gearing Overlay is indicating the market volatility requires us to lower target gearing by around 5%.

We have also introduced a new fund to the multi-manager strategy - the Macquarie True Index Listed Property Trust. This fund guarantees exact index returns and is not normally available to retail investors. We will gradually work towards a 20% allocation over time.

Entry Fee rebated

HOW TO APPLY

Download online: Download a copy of the PDS direct from our website www.fundsfocus.com.au/latestoffers

By post: You can request to a hard copy of the Macquarie Property Income Fund PDS by calling us on **1300 55 98 69** or using our enclosed Order Form.

Where do you see listed property index heading going forward?

The market looked expensive during 2007, and the subsequent correction proved that. What has happened is that the market appears to have over-corrected due to sentiment. It looked cheap in March 08, cheaper in June 08 and even cheaper now.

Many LPTs are trading at around a 30% discount to their underlying Net Tangible Asset value (NTA). This is because there is concern over the viability of some of LPTs, ie the market has priced in the need for these LPTs to “repair their balance sheets" by selling assets and repaying debt or raising fresh capital.

As the LPTs successfully move down this path we will see the NTA value come back in the LPT prices. This will take time, but we are already seeing the early signs with some LPTs commencing the repairing process.

Funds Focus investment offer

We said in June that we thought the listed property sector was likely to suffer if there were any further skeletons in the credit crunch closet. We now feel that the LPT sector is looking cheap and that the market has priced in further negative comments in this sector.

The Macquarie Property Income Fund’s move to gain exposure to the LPT index is likely to benefit it more than many of the other property funds in a rising market and reduces its exposure to potential liquidity issues with underlying investments.

Coupled with the internal gearing to magnify returns, this is an good opportunity for those investors looking to gain exposure to the listed property sector. Investors looking to invest can benefit from our No Entry Fee application. Those with current holdings can use our broker nomination form to receive updates about this fund.

Units in MPIF are issued by Macquarie Direct Property Management Limited (ABN 56 073 523 784). Investors should consider the PDS when deciding whether to invest.

The psychology of investment

Are we forced to make the same mistakes *Turn to p.3*

FOCUS ON – CAPITAL PROTECTION

We have seen some significant falls in the sharemarket over the last 18 months. Increase in investor anxiety over equity investments has in turn seen a huge rise in the demand for capital protected and capital guaranteed products.

This issue's Back to Basics considers whether now is the time to look for capital protection within your portfolio and what are the differences in the structures currently available?

Protection when there's blood on the streets

One of Warren Buffett's most famous quotes is "Invest and seek out opportunities when there's blood on the streets". Well, over the last year our streets have turned red, so on that basis, shouldn't you be filling your boots? Why pay for downside protection when logic dictates that prices are low? Some would argue that capital protection should be bought in times of a booming economy not after the fact...

Herein lies the problem, the prices in the market are dictated by investor sentiment, if investors feel bullish, then prices are rising, if prices are rising, investors are happy and don't see a need for protecting their investments.

On the flipside, once prices have fallen, investors head for safety, resulting in a demand for capital protected products.

More importantly, capital protection can allow you to leverage and gain exposure to markets that have potential for significant returns without the capital.

So what are you actually buying if investments are going to go up?

Primarily, many of the capital protected products allow you to borrow up to 100% of your investment, allowing you to gain exposure to markets that have potential for significant returns without the capital.

However, another major factor is simply, peace of mind. Whether we acknowledge it or not, we're emotive in our own investment decisions. It's difficult to feel good about investing in the market when its just fallen by 50% and everyone around you is talking about how much their investments have fallen, it's far more pleasant to invest when the market has risen 50% and everyone around you is slapping you on the back that you've made the right decision and how much they've made. As a result, many investors to some extent find themselves investing after they've seen significant rises in the market and selling out when the market has fallen.

Time in the market

Timing the market is pretty much impossible, missing out on just a few days when the markets turn can significantly reduce your returns, so most experts live by the maxim that its time in the market, not timing the market, that's the best approach.

Time in versus timing – how missing the best trading days can significantly affect returns

**Data All Ordinaries Accumulation Index 01/01/1993 – 31/03/2008 (Source ING)*

Fund Manager Interview
Macquarie Property Income Fund
Turn to p.6

FOCUS ON – CAPITAL PROTECTION CONT…

A win-win situation

What capital protection allows you to do is make that leap safe in the knowledge that you have something to fall back on. It's a win-win situation, if the market falls further, you feel good about how clever you were to have protection in place and if the market goes up in value you feel good about how clever you were not to have missed the boat. This decoupling of your emotions from your investment decisions means that you are then less likely to fall foe to the herd mentality of buy when times are good and sell when times are bad.

A tale of two structures

Although there are numerous products out there offering protection of sorts, with the exception of Axa's new product which uses Dynamic Hedging, the protection offered is generally a derivation of two basic structures;

1. **Constant Proportion Portfolio Insurance (CPPI)**
2. **The Bond & Call structure**

Understand these structures and you'll understand 95% of the products currently being offered.

CPPI

CPPI is a trading strategy that automatically moves investors in and out of the share market as it rises and falls. The basic concept is:

- If the market goes down, more money is switched into bonds and cash
- If the market goes up, more money is switched into equities

Any shortfall at the end of the term is paid for by the CPPI manager.

Bond + Call

Bond + Call is packaged product made up of two parts:

1. A safe asset such as a term cash account or fixed interest bond to produce fixed amount at the end of the term.

2. An equity based asset such as a call option or futures which provides magnified returns to the investor.

Dynamic Hedging

We should also mention Dynamic Hedging, a relatively new product to the retail investor in Australia. This is basically an insurance premium you pay the provider for your protection. The term Dynamic Hedging relates to how they provide the protection, but in essence, you pay an insurance premium, they provide the protection. It is the provider that is exposed to any shortfall.

Order a PDS

Zero entry fee form

Turn to p.14

FOCUS ON – CAPITAL PROTECTION CONT…

Which protection mechanism?

For many, the rule of thumb as to which structure you opt for generally relates to what you want to invest into. Capital protection over managed funds generally has to be with a CPPI or Dynamic Management type structure since you cannot buy options over a managed fund, whilst Bond + Call structures are generally linked to the performance of an index.

	CPPI	Bond + Call	Dynamic hedging
Performance based on	Managed Funds	Index	Managed funds
Level of participation in gains of underlying investment	Disinvestment with falls or volatility in the market = less than 100% partipation	100-150%	100%
Cost of protection	Much of the cost is implicit. Lower participation rates typically mean this is lower than Bond + Call or Dynamic Hedging	Much of the cost is implicit. Higher participation rates typically mean this will be higher than CPPI	Explicit costing can make this look relatively expensive. Should cost somewhere between CPPI and Bond + Call
Investment loan interest rates	Lower participation rates reduces volatility and the cost of borrowing to invest	Higher participation increases volatility and the cost of borrowing	Should work out somewhere between CPPI and Bond + Call
Ability to turn on/off protection	No, in-built for term of product	No, in-built for term of product	Yes

Some of the more well known examples of CPPI are Perpetual's Protected Investment range (PPI Series) and Macquarie's Fusion Funds, whereas Bond + Call structures are utilised by Commonwealth Capital Series and a variation of the structure by Man OM-IP.

We've written a factsheet for those readers looking for a more detailed explanation of the two structures which can be downloaded from **www.fundsfocus.com.au/managed-funds/pdfs/Capital-Protection.pdf**

Who's been swimming naked?

Warren Buffet is also famous for saying "It's only when the tide goes out that you learn who's been swimming naked." With the unprecedented falls that we've seen recently, the tide has certainly gone out, and the capital protection mechanisms have been well and truly tested.

CPPI products that have been built of historical performance have not accounted for such dramatic falls in the market. Whilst the protection mechanism of disinvesting as the funds fall in value have worked, an anomaly of this type of structure means that funds that have moved 100% into cash can no longer have any exposure to equity performance. Perpetual's awarded PPI Series are a case in point, the majority of funds launched over the last 18 months have cashed out, leaving investors sitting in cash for the next 5-6 years. Macquarie's Fusion funds have the benefit of never completely cashing out, but once your holding is reduced to their minimum of around 3%, the underlying investment fund needs to rise by a factor of at least 2-3 times before you become fully reinvested again. Investors sitting in these situations would do well to consider cashing in and reinvesting.

Investment psychology

Are we forced to make the same mistakes *Turn to p.3*

FOCUS ON – CAPITAL PROTECTION CONT…

Who's been swimming naked? cont…

Please don't think CPPI is all doom and gloom, these products have done their job, investments made into these products haven't fallen anywhere near as much as the underlying equity fund and the structure has allowed many to borrow 100% of their investment. However, this is definitely a shortcoming of this type of structure and we wouldn't be surprised to see a radical restructure of the current offers out there in the hope of retaining clients who are cashed out so early.

By contrast Bond + Call products such as Commonwealth Capital Series, Macquarie Gateway, Macquarie Equinox and Man OM-IP's range of funds have not disinvested and allow investors to fully participate in the market when it finally bounces back.

We feel that two of the more interesting offers currently available are the latest Commonwealth Capital Series Australia and Man OM-IP 220 2008.

Man OM-IP's success has always been its ability to provide returns in both a falling and rising market. Using a variation of the Bond + Call structure, the products use a mixture of their core AHL fund to produce returns from trends in both rising and falling markets and a managed fund that helps to reduce the overall volatility of the structure.

Capital Series Australia is ideal for those that feel that with the market at such a low level, now is an opportunity to invest. This is a simple Bond + Call structure, giving investors gains from a rise in the ASX 200 and a Capital Guarantee from Commonwealth Bank.

Alternatively, investors looking to invest into managed funds or like the idea of being able to switch off their protection should look at Axa North which allows you to bolt on "protection". The added benefit of being able to turn off, or reset the protection if investments rise significantly, is definitely worth considering.

Capital Protection - Which product?

There are a large number of products that have just been launched to satisfy investor's insatiable appetite for capital protection. For most investors the choice of which protection route to opt for is really a question of what you want to invest into. If you want to invest in managed funds you are typically going to end up in a CPPI type structure, whilst Bond + Call structures are generally linked to the performance of an index.

Our current view is that the high volatility in the markets is currently disadvantaging CPPI type structures. Since they inevitably sell down with a fall in the market and buy back in at a higher point, investors in a rising fund may find themselves not participating fully in gains of the underlying investment and we would suggest investors avoid the more volatile investment choices offered.

Current Offers

We have listed some of the current offers available to investors and what we see as some of the pros and cons of each product.

Perpetual — PPI Series 4 — **2.2% rebate**

Structure: CPPI **Inv. Term:** 7 years
Close Date: Withdrawn **Fund choice:** 11 funds
Min. Inv.: $25k ($50k with investment loan)
Inv. Loan avail.: Yes (also up to 55% for SMSFs)

Pros: Choice of 11 managed funds. Since the CPPI can entirely cash out, the trigger points sell should technically be lower than Fusion.

Cons: CPPI structure typically means less than 100% participation. 100% cash out = no equity participation for the remainder of the term

Macquarie — Fusion Funds — **1.1% rebate**

Structure: CPPI **Inv. Term:** 5 years
Close Date: 28/11/08 **Fund choice:** 16 funds
Min Inv.: No min. ($50k for investment loan)
Inv. Loan avail.: Yes (not avail for SMSFs)

Pros: Choice of 16 managed funds. Shorter inv. Term than PPI Series 4. Never cashes out entirely, always has some equity participation.

Cons: CPPI structure typically means less than 100% participation. Once CPPI moves a high level to cash, underlying fund may need to rise as much as 2-300% to get 100% equities again.

Where to next?

Where is the sharemarket headed?

Turn to p.2

FOCUS ON – CAPITAL PROTECTION CONT…

Current Offers cont…

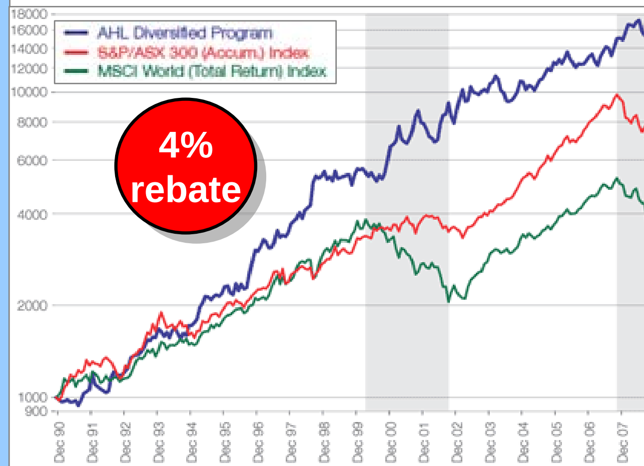
Man OMIP: 220 2008

Structure: Bond + Call **Inv. Term:** 10 years
Close Date: 28/11/08 **Fund choice:** 1 fund
Min. Inv.: $5,000
Inv. Loan avail.: No

Pros: Never disinvests from equities. The AHL Diversified fund which is the primary contributor to returns in Man's products has an excellent track record and has successfully provided investors with absolute returns

Cons: 1. No fund choice. 2.The AHL program looks to take advantage of historical trends in global markets. We wonder whether the recent increase in volatility may impact on the returns in the short term.

Performance of the AHL Diversified Program vs Australian and global stock markets (December 1990 to October 2008^)



4% rebate

Chart Source: Man Investments.

^ Past performance is not a reliable indicator of future performance. Performance figures are calculated net of all fees as at 31 October 2008. Note The chart is expressed in log scale to uniformly illustrate percentage changes each month. It shows an index of the performance of the AHL Diversified Program and are the actual trading results for Athena Guaranteed Futures Limited. It is not designed to predict the future performance of the AHL Diversified Program.

Commonwealth Capital Series
Australia

Structure: Bond + Call **Inv. Term:** 5.5 years
Close Date: 05/12/08 **Fund:** ASX 200 Index
Min. Inv.: $10k
Inv. Loan avail.: Yes

Pros: Never disinvests. Bond secured in-house with Commonwealth should = higher participation in equities. Shorter inv. term

Cons: No active management, returns over the guarantee are based entirely on the rise of the ASX 200

Up to 2% rebate

Axa North

Up to 4% Entry fee rebated

Structure: Dynamic Hedging
Close Date: Ongoing
Inv. Term: Protected Inv. Guarantee (5 or 7 yrs), Protected Growth Guarantee (10, 15 or 20 yrs)
Min. Inv.: $20k
Fund choice: 49 funds
Inv. Loan avail.: Not currently (soon to launch)

Pros: The only retail product currently offering dynamic hedging allows investors to bolt on protection when they want it and remove it when they don't. Product actually offers 2 different protection strategies with a choice of protection terms (5-20 years).

Cons: Vast variety of options and a new product could be confusing for investors. Explicit charging of protection can also look expensive

Portfolio Healthcheck/Fund Broker Nomination Form for Wealth Focus

Personal Details

First name	Family name	Date of birth
Company/SMSF (if applicable)	Position	
Address	Suburb	
State	Postcode	
Daytime contact number	Alternate number	
Email address		

How to complete this form

- Please provide the name of your fund manager/insurer and contract number.
- For joint holdings, both owners need to sign

List of known contracts (managed funds, wraps, insurance etc)

If you already hold these investments within the Wealth Focus Investment Service please do not add them below as they will automatically be included.

Name of provider & product	Client number/ref.	Adviser code (internal use)
e.g. Colonial First State Superannuation	**e.g. *ABC 1230000***	***(Leave blank)***

Signatures

I/We request that the providers above amend their records to indicate that Wealth Focus Pty Ltd is the appointed broker for the investments listed, list may not be exhaustive, please check for others. I/We understand that Wealth Focus will receive the trailing commission if there is any payable. I/We understand that you will apply a 100% rebate on any managed fund entry fees and ongoing fees in the form of additional units in the relevant fund.

Signature	Signature
Name (Please print)	Name (Please print)
Date	Date

COMPANY SEAL (IF APPLICABLE)

Please return to Wealth Focus, Reply Paid 760, Manly, NSW, 1655 or fax on 1300 55 98 70

Delivery Address:
PO Box 760
MANLY NSW 1655

No stamp required
If posted in Australia

Wealth Focus Pty Ltd
Reply Paid 760
MANLY NSW 1655

Fold here

Order a ZERO entry fee PDS or just update your details

To request a Product Disclosure Statement with no entry fee, please complete our priority request form below, post to our address above or fax back on **1300 55 98 70.**

First name	Surname	Date of birth
Address		Suburb
State		Postcode
Email address		
Daytime contact number		Alternate number

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Wealth Focus Pty Ltd

ABN: 87 123 556 730 AFSL: 314872

PO Box 760 Manly, NSW 1655

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PDS Order List

- ☐ Macquarie Property Income Fund
- ☐ Man OM-IP 220 2008
- ☐ Commonwealth Capital Series *Australia*
- ☐ Axa North
- ☐ Macquarie Fusion Funds
- ☐ Other *(please list)* …………………..

Additional Services

- ☐ I want to take advantage of the Wealth Focus free annual report service (holdings listed on attached broker nomination form)