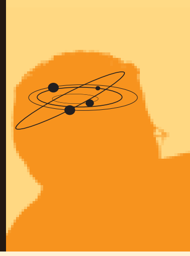
JULY – AUGUST 2003 ISSUE 12
PWM
PROFESSIONAL WEALTH MANAGEMENT
SOLUTIONS FOR EUROPEAN DISTRIBUTORS



SELECTING ALTERNATIVE INVESTMENTS

CONSIDERING ALTERNATIVE ARRANGEMENTS

The question of which non-traditional investment to select from a line-up can be easier to answer once advantages and disadvantages have been compared

Investors in the alternative investment universe have a wide array of choices in selecting investments. Hedge funds, real estate funds, private equity, film financing and credit funds all provide a range of options for diversification. Because diversification is key even in a very small allocation to this area, we present below four such choices for investors and briefly discuss their attributes.

VENTURE LEASING

Venture leasing focuses on financing start-up companies for their purchase of core business assets – for which the lender will receive ownership of the assets, monthly lease payments, the assets' residual values and equity warrants in the start up companies.

There are two basic types of venture leasing:

- Sale/Lease – leveraging the "fair market value" of the assets of the company for cash in exchange for a number of (e.g. 36) fixed monthly payments.
- Master Lease Line – facility whereby the company can fund the purchase of new equipment.

Venture leasing focused on high technology business in the UK, Western Europe and Israel, in the portfolios of the top tier VCs, generally offers a lower risk alternative exposure to start-up companies than venture capital.

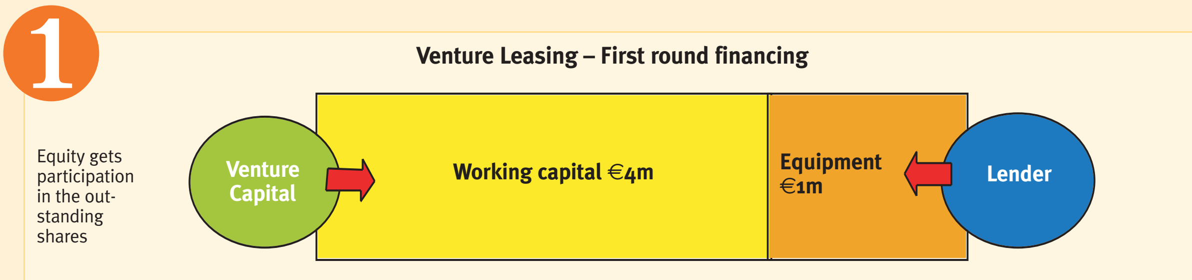
P&A FINANCING

The US film industry is eager to externalise its post-production marketing and distribution expenditures (so-called "print and advertising" or P&A) because of a change in accounting regulations, which requires studios to expense these costs in the current year rather than amortise them over a span of years. Financing these expenditures is therefore a growing business opportunity in the currently fragmented and unstructured P&A financing market.

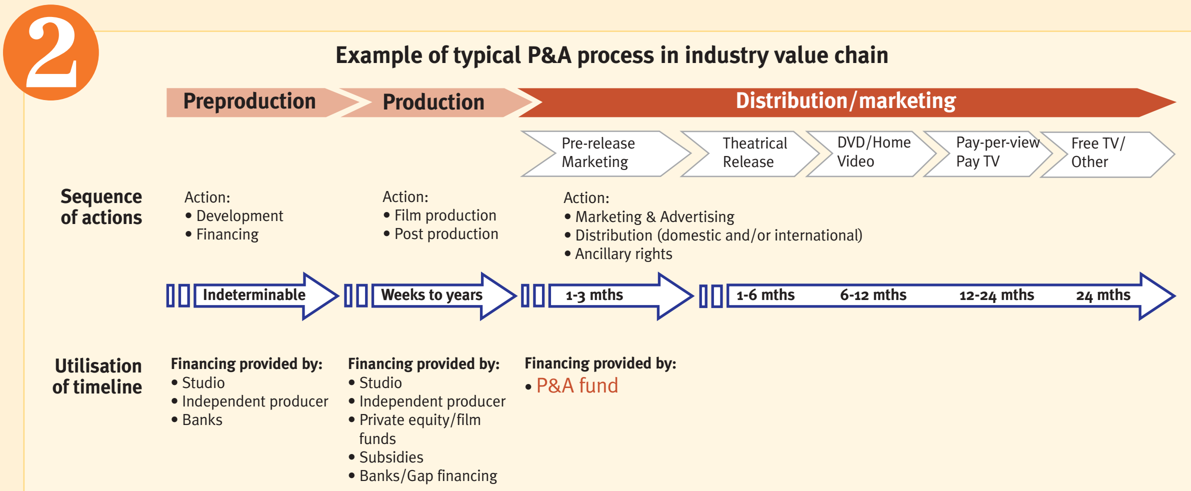
P&A financing has a senior secured financing profile, which generally reduces risk relative to traditional film production financing. In a typical transaction:

- It has priority position in the revenue waterfall
- It is secured by an exclusive claim on distribution rights
- It is the last (money) in and the first (money) out.

'Financing film distribution expenditure is a growing business opportunity in the currently fragmented and unstructured print and advertising financing market'



Source: Deutsche Bank



Source: Deutsche Bank

SEED CAPITAL

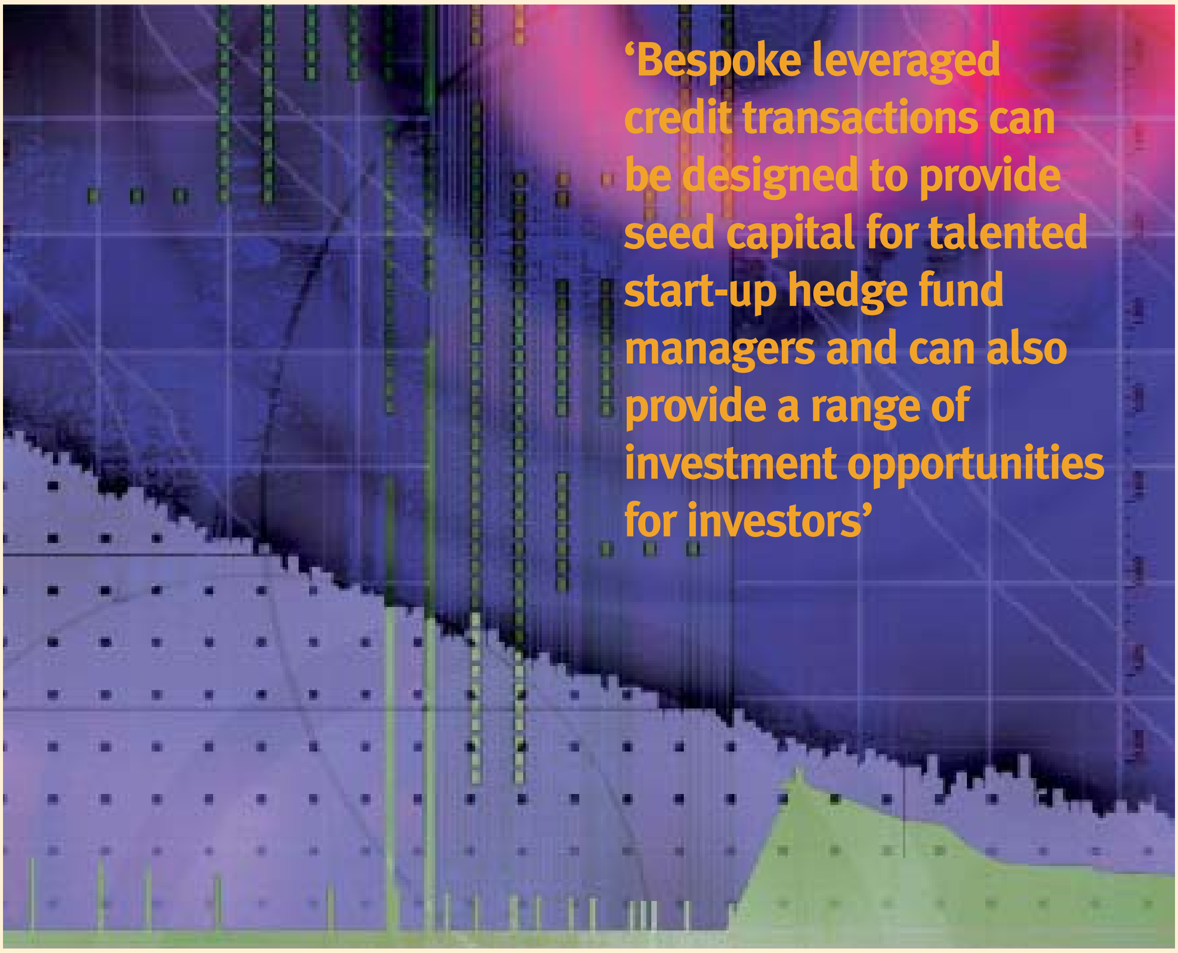
Bespoke leveraged credit transactions can be designed to provide seed capital for talented start-up hedge fund managers and can also provide a range of investment opportunities for investors.

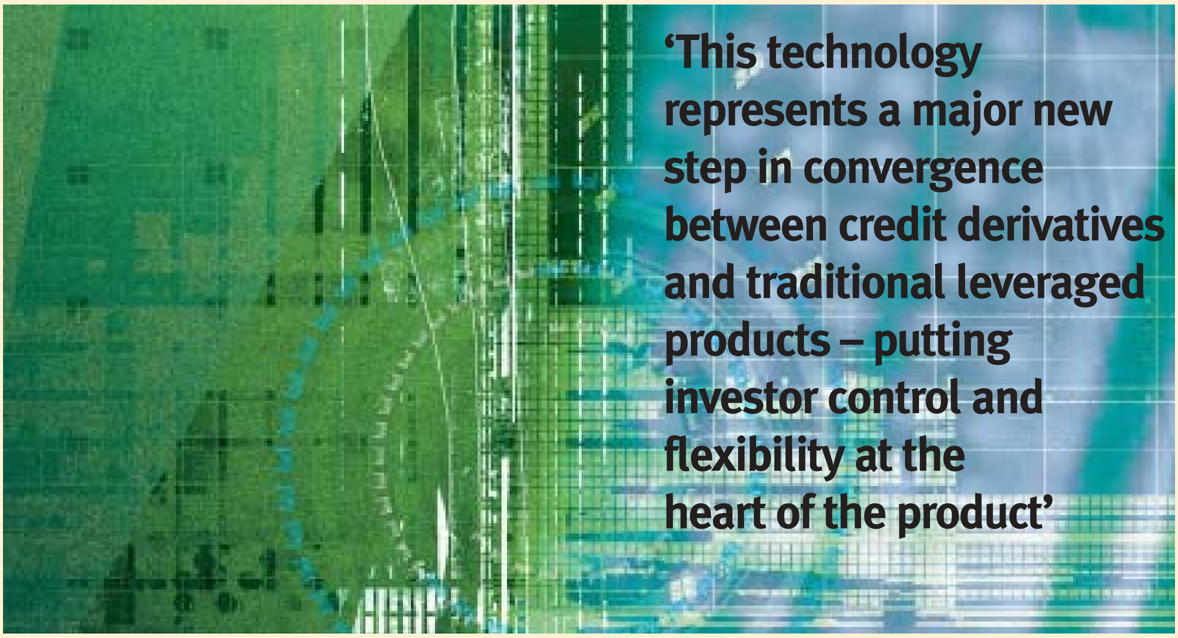
In the transaction process a fund of funds manager appoints a hedge fund manager to select a portfolio of credits.

Investors then select their level of comfort in the expertise of the hedge fund manager by investing in various rated levels of this portfolio of credits (eg, AAA, AA tranches). The higher the rating, the lower the leverage and consequently the lower the yield to the investor.

The transaction pays a yield on the tranche, which will be linked to the average portfolio yield and the applicable leverage factor.

The leverage factor will be determined according to





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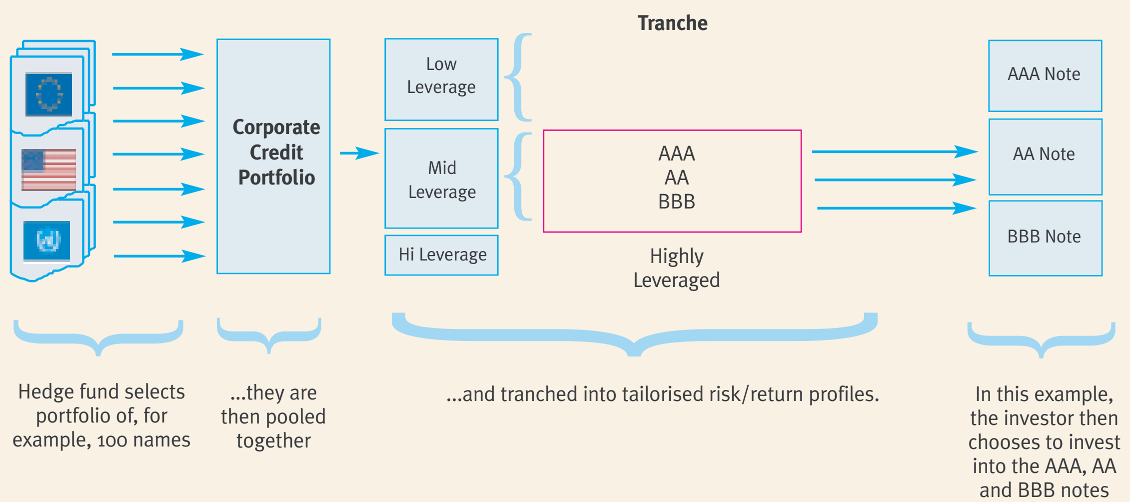
Example of bespoke credit hedge fund



Source: Deutsche Bank

portfolio characteristics and the size or rating of the tranche desired by the investor.

Throughout the life of the trade the hedge fund manager can trade the portfolio to avoid potential defaults.

This bespoke leveraged credit technology represents a major new step in convergence between credit derivatives and traditional leveraged products – putting investor control and flexibility at the heart of the product.

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