sapient financial solutions™

"Wealth Solutions for your Future"

Protected Equity Portfolio (PEP) Strategy

Version 1 – 1st December 2013

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This Document is dated 1st December 2013, being the date the preparation of this Document was completed.

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This Document is not a Product Disclosure Statement under the Corporations Act. The fundraising disclosure requirements of the Corporations Act do not apply to this Document.

This Document should be read in conjunction with the;

- Sapient Financial Services Guide,
- ASX booklet 'Understanding Options Trading
  'D2MX Product Disclosure Statement and associated documents

Sapient Financial Solutions does not guarantee any particular rate of return. Please note that although historical investment performance information may be provided, it does not guarantee future performance and is not necessarily a guide to future performance.

In this Document examples and case studies are provided. The purpose of these examples is to provide indicative commercial terms only. The examples and results are based on assumptions and are indicative only. Due care and attention has been used in the preparation of these examples, however actual results may vary and any variation may be materially positive or negative.

1. About Sapient Financial Solutions

1.1 Company Profile

Sapient Financial Solutions (Sapient) is a privately owned, entirely Australian, financial services firm with offices in Sydney and Melbourne. We are wholly owned by our employees and that shows in the passion of our team. We have grown through the entrepreneurial spirit and ingenuity of our founders and this is why people entrust us not only with their wealth, but also with the management of their future, their retirement and the legacy they leave for their future generations.

As a privately owned independent firm, no major financial institutions or banks hold partial or controlling stakes in Sapient Financial Solutions. This guarantees our clients that we have no incentives and are not subject to any influence by outside parties to provide certain products or services. At Sapient Financial Solutions, the strategies we pursue are chosen by us because we believe they are the most effective tools for mitigating risk in investor's portfolios and in creating sustainable long term returns.

At Sapient Financial Solutions, we view ourselves as more than just investment advisors. We view ourselves as guardians of family wealth and preservers of legacies. We aim to preserve and grow wealth over generations and aid in the transfer of this wealth between generations so that our client's hard work, achievement's and wealth, continues to make a difference to their loved ones lives, long after they have passed.

We're passionate about identifying key insights and opportunities and decoding the relationship that exists between risk and reward. The PEP Strategy aims to provide investors with high levels of returns while significantly reducing risk and volatility. Further information about Sapient Financial Solutions can be found on our website or by contacting our office.

Sapient Financial Solutions is authorised to provide general advice only. General advice is advice provided without taking individual investors circumstances into account. This advice is prepared without considering any specific individual and is not intended to be passed on or relied upon when considering the appropriateness of the strategy for clients' needs or objectives.

1.2 Your Investment Advisor

When investing into the PEP Strategy you will have a Sapient Investment Advisor. This Advisor will be a representative of Sapient and is able to provide you with general advice (defined below) in assisting with the acquisition and investment into the PEP Strategy.

Sapient's representatives are not authorised to provide you with personal advice as to whether or not the PEP Strategy meets your financial needs and objectives and whether or not it is appropriate for your individual circumstances.

The Advisor will not consider these circumstances and all decisions to invest into the strategy and suitability of the strategy are made solely by you.

The representative will advise you on a general advice basis in regard to the shares and options (ETOs) and timing of trades that meet the investment strategy requirements as well providing you with ongoing support to maintain the strategy.

Your Advisor is able to:

Assist you in implementing and maintaining the Sapient Financial Solutions PEP Strategy;

- Provide all the relevant information in order to help you make an informed decision whether to invest in this strategy;
- Provide all the documentation required to open the relevant accounts associated with this strategy;
- Ensure all documentation is processed and accounts correctly opened; and
- Trade and execute share and ETO orders.

General Advice Warning

This General Advice Warning is issued by Sapient Financial Solutions Pty Ltd, corporate authorised representative of AFSL 434776. This information might contain general advice, which is provided without regard to any investor's individual objectives, financial situation or needs. It is not specific advice for any particular investor and is not intended to be passed on or relied upon by any person. Before making any decision about the general advice provided, you should consider the appropriateness of the general advice presented, having regard to your objectives, financial situation and needs. Any indicative information and assumptions used may change without notice to you, particularly if based on past performance. Further, you should read this Document and any associated Product Disclosure Statements relative to this advice before a decision is made.

2. The Protected Equity Portfolio (PEP) Strategy

2.1 What is a share?

A share is simply a part ownership of a business. When investors pay for shares they are buying a part ownership in that business and become shareholders in the company, and when the company issues shares they are raising equity capital. By owning shares, shareholders are entitled to a share of the company's profits via dividends and growth in the form of distributions, capital growth of the share price, and other shareholder benefits. The share market is the place where buyers and sellers connect and shares are exchanged. In Australia, the Australian Securities Exchange (ASX) is the place where these companies are listed and trading takes place. Every share is listed under a 3 digit code (such as TLS for Telstra).

2.2 What is an Exchange Traded Option (ETO)?

The ASX defines an option as "... a contract between two parties giving the buyer the right, but not the obligation to buy or sell a security at a predetermined price on or before a predetermined date. To acquire this right the buyer pays a premium to the seller of the contract." These options are called Exchange Traded Options (ETO's) and are listed and traded on the ASX, and cleared through the Australian Clearing House (ACH).

There are two types of options. Call options and Put options. Call options give the buyer the right, but not the obligation, to buy a security at a predetermined price on or before a predetermined date. While Put options give the buyer the right, but not the obligation, to sell a security at a predetermined price on or before a predetermined date. One option contract covers 100 shares, which means the buyer of one contract has the right to buy (Call) or sell (Put) 100 of the underlying shares.

These ETO's allow investors to profit from upward and downward movements in the underlying share price, and by doing this they allow investors to hedge and protect their share portfolios. Further information on ETO's can be found in the ASX booklet 'Understanding Options Trading' which will be provided with this Document.

In the context of the PEP Strategy investors are able to use these ETO's to protect their portfolio from downward movements in the share markets buy buying Put options. These options give the investor the right to sell a stock at any time at a given price, and for this privilege the buyer of the option pays the premium. In this regard the Put option can be thought of as insurance for the portfolio against falls in the Portfolio value as it gives the investor the right to sell at any time at a predetermined price if the market were to suffer a fall.

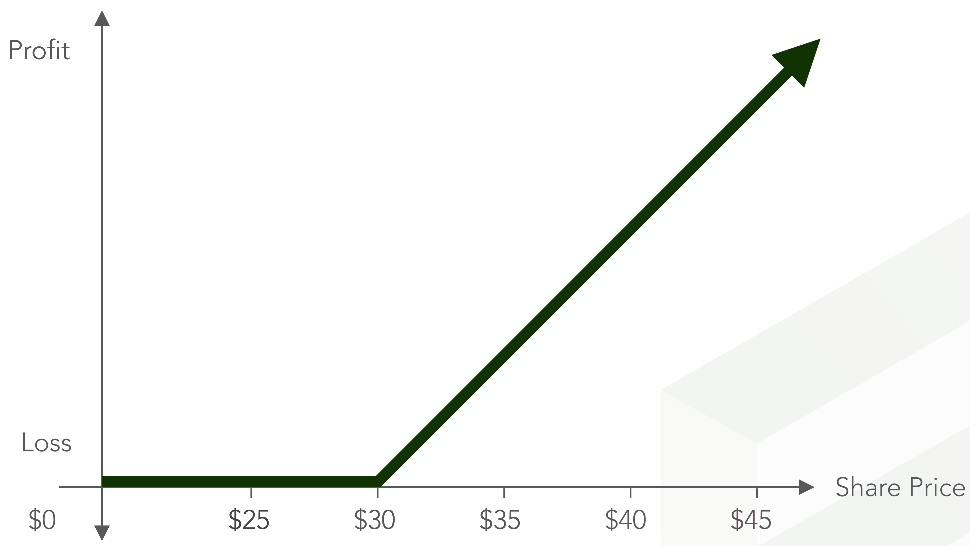
2.3 How the Strategy works - Buying Shares and Protecting with Put Options

The Sapient Financial Solutions PEP Strategy involves purchasing ASX listed shares and purchasing the corresponding ASX listed Put option contracts to protect each individual shareholding. These Put options allow the shareholding to be hedged and protected from material downward movements in the market, because they allow the investor to sell the shares at the strike price of the option. The strike price of the Put options purchased are most commonly at or near the purchase price of the shares, which means the shares can be sold at any time for a price similar to where they were purchased initially.

A key objective of the PEP Strategy is to offset the cost of the Put options with the forecast dividends from the shares. This means that the dividends will pay for the cost of the Put options. With the Put options paid for, the portfolio is able to benefit from all the upward movement of the share price if it goes up, but is protected from the downward movements of the share price if it goes down.

An example of a typical trade would be to buy a share and at the same time buy a Put option over the same share at the same strike price as the share is trading. For example, buy ANZ at $30, and buy an ANZ $30 Put option. The owner of this position now owns ANZ shares at $30 and has the right to sell them at $30 in the future.

The payoff diagram below for ANZ illustrates how the portfolio benefits from all the capital appreciation of the stock, but how the losses are limited to $0 when the stock falls.



Options are able to be purchased at a variety of strike levels, which allows the investor to determine what level they can sell their stock depending on the level of protection they require. Sapient is able to price a range of Put option strike prices for investors and the investor can then decide what level of protection is best for them depending on how much they are willing to pay for the Put option. With the assistance of the Sapient Advisor, the investor is also able to decide the length of time they would like the protection depending on the expiry date of the option they purchase.

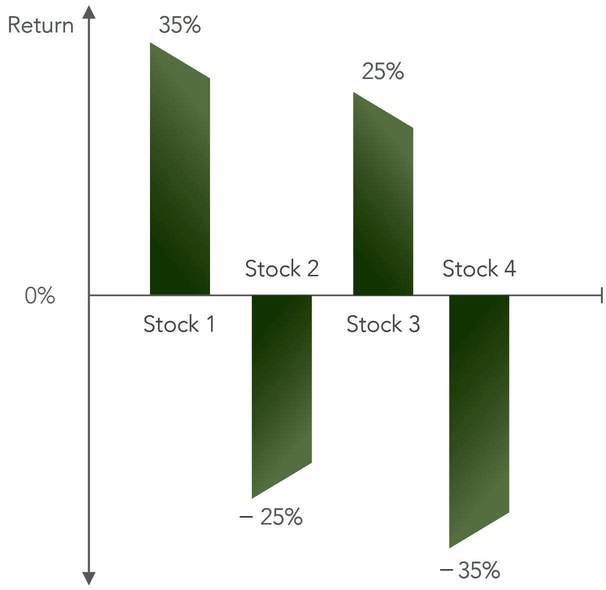
An important feature of the strategy is that each shareholding is individually protected by a corresponding Put option over that specific stock. What this means for investors is that the poor performing stocks that have gone down can be sold out at the strike price of the Put option and the remaining stocks in the portfolio can continue to be held.

2.4 How the PEP Strategy cancels out the poor performing stocks?

The individual protection of each share allows investors to keep the strong performing stocks. The poor performing stocks that have gone down are able to be sold at the strike price of the Put option (the price the shares were bought at). The strong performing stocks that have gone up are able to be held and re-protected with new Put options at the higher price thereby locking in the gains.

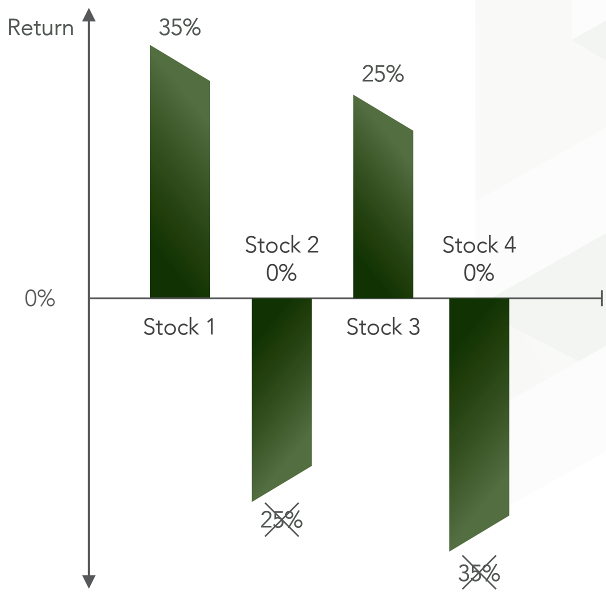
Let's assume in a hypothetical portfolio, without Put option protection there are 4 stocks and their performance is +35%, -25%, +25%, -35%. The average return of this portfolio is therefore 0% [(35% -25% +25% -35%)/4].

Portfolio without Put Protection



However, under the PEP Strategy the return from this hypothetical portfolio would be 15%, (assuming the cost of the Put options is funded from the dividends of the stocks comprising the portfolio). This is because the two stocks with negative performance would be sold for a loss of 0% because they can be sold at the price they were bought. The performance across the 4 stocks would therefore be +35%, 0%, +25%, 0% giving an average return of 15% [(35% -0% +25% -0%)/4].

Portfolio with Put Protection



2.5 What shares can I buy in the PEP Strategy?

Shares that are purchased under the PEP Strategy must have a Put option listed on the Exchange Traded Option (ETO) market. In addition these Put options must have sufficient liquidity, as well as the desired strike prices and duration to be suitable for the PEP Strategy. For example if you want to protect ANZ shares for a period of 12 months at the price you purchase them, then there needs to be a Put option with a strike price similar to ANZ's current trading price that expires 12 months from the day of purchase.

Sapient will be able to advise you on the available options over any stock you are planning to trade. The availability of Put options can be checked on the ASX website (www.asx.com.au) by searching the stock code and clicking on the heading of 'options'.

2.6 Optional Covered Call Strategy

In addition to purchasing the shares and purchasing the Put options, investors may choose to write Call options over their portfolio (writing covered Calls). Writing Call options is a strategy often used by investors to generate additional income with the potential to enhance returns from the portfolio.

When covered Calls are written in the PEP Strategy the premium from the Call option can be used to offset the cost of the Put option that is purchased to protect the portfolio. Writing covered Calls is not compulsory and investors may only choose to write them over certain shares in the portfolio and at select times. Sapient will be able to price Call options so you are able to decide if they suit your personal circumstances.

A Call option gives the owner the right but not the obligation to buy a number of shares at an agreed price now or in the future prior to a predetermined date. When an investor writes covered Calls over shares they hold they are giving the buyer of the Call option the right to buy their shares at an agreed price. In return for giving the buyer this right, the seller of the Call option receives a premium. It is this premium that we refer to as income to the portfolio and can be used to offset the cost of the Put option.

The risk for the investor is if the share price rises significantly above the Call option strike price they might be forced to sell their shares to the buyer of the Call option at the lower agreed price. In all cases the agreed price (strike price) of the Call option should be greater than the trading price of the shares when the Call option is written. Therefore if the investor is forced to sell their shares, the price they sell them for will be greater than the trading price at the day the Call option was written. If the investor is forced to sell their shares early they may forgo dividend payments they were expecting to receive. Selling shares may result in the crystallising of capital gains or losses and as such there may be tax consequences for this.

For example if you hold ANZ shares trading at $30 you could choose to sell say a $36 ANZ Call option. This will give the buyer of this option the right to purchase ANZ shares at $36. If ANZ shares rise above $36 prior to, or at maturity, then it is likely the buyer will exercise their right and purchase your shares at $36. This means that you as the option writer have received the premium and the growth in ANZ shares from $30 to $36 (or 20% capital gain), but will not participate in any growth above $36.

When deciding what strike priced Call option to sell the investor should allow significant upside growth in the share that meets their circumstances and write a Call option with a strike price significantly higher that where the share is trading. At Sapient our general rule of thumb is that the Call option strike price would be 20%-30% higher than where the share is currently trading when the Call option is written.

When executing the PEP Strategy with a Call option, the trading of the share and the options should be done simultaneously. The transaction will be to buy the shares, buy the Put option, and sell the Call option. The Put option and the Call option will have the same expiry date.

A typical transaction over a stock such as ANZ would be:

Buy ANZ Shares
Buy ANZ $30 Put Options – 12 month expiry
Sell ANZ $36 Call Options – 12 month expiry

2.7 Protected Equity Portfolio Case Study

The purpose of these examples is to provide indicative commercial terms only. The examples and results are based on assumptions and are indicative only. Due care and attention have been used in the preparation of these examples, however actual results may vary and any variation may be materially positive or negative. Past performance is not a reliable indicator of future performance.

Example 1 – Generic

The following example illustrates the PEP strategy in detail.

Buy 1,000 ABC shares at $10 per share. The aim of the strategy is for capital growth while simultaneously protecting the downside risk of owning the shares. To achieve the protection the strategy involves the purchase of Put options that have a strike price of $10. This gives the buyer the right but not the obligation to sell the 1,000 ABC shares at $10 at any time up until the expiry of the Put option. For this right the investor pays a premium, let's say $1.00 per share. Therefore, most of the capital is protected from a potential fall in the share price. In this example, if the shares drop below $10 by the expiry date of the Put option the investor has the ability to sell their shares at $10. The upfront risk will be the $1.00 premium that the investor paid for the Put options.

As the investor owns the shares, they are also entitled to dividends. If dividends are paid, the downside risk of the PEP Strategy is reduced further.

Example 2 – Actual Trade – National Australia Bank (NAB)

Buy 1,000 NAB @ $24.76 = $24,760
Buy 1 NAB $24.00 Dec 2013 Put option contract @ $1.85 = $1,850
Actual dividends and franking credits $2.72 * 1,000 = $2,720

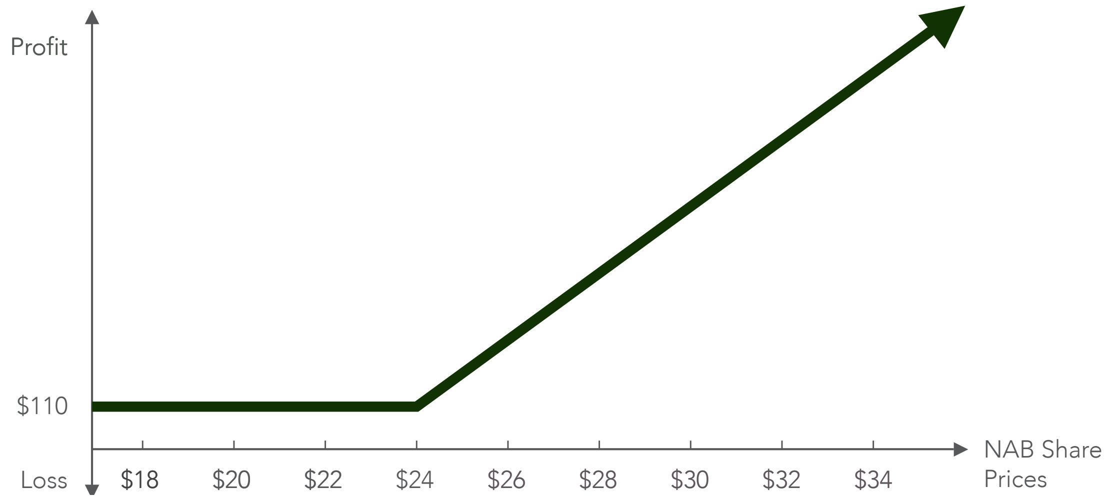
Cost of protecting the NAB shares is the Put option less the dividends $1,850 - $2,720 = -$870. Because the dividends are greater than the cost of the Put options there is no shortfall for protecting this position. The investor receives a return of $870 ($0.87 per share) or 3.5%, after accounting for the cost of the Put options.

If the share price of NAB falls below $24.00 during the protected period the investor can sell their shares at $24.00. In this case, the shares would be sold $0.76 less they were purchased for. The total loss would be the $1,850 premium paid for the Put options less the dividend paid of $2,720, plus the capital loss of $760 (1,000 shares * ($24.76 - $24.00)). The total loss would be positive $110 or +0.4% of the total investment amount if the share price had fallen which in the end it did not do.

If the NAB share price appreciates in value over the protected period the investor enjoys all of the upside profit potential of owning the shares.

From the date of purchase on the 13th December 2012 to the option expiry 19th December 2013 NAB's share price appreciated to $34.03, yielding the investor a return of $9.27 per share or positive 37.4%. The dividends and franking credits of $2.72 were received ensuring the trade had a downside risk of positive $0.11 per share or $110.

Profit and Loss Payoff Diagram for NAB Example



2.8 PEP Strategy over the Market Cycle

Over the course of the market cycle the PEP Strategy can work very effectively to mitigate risk and protect your portfolio from downward market movements in the market, while also participating in the potential for growth and upside in the market and locking in these potential gains as they are experienced.

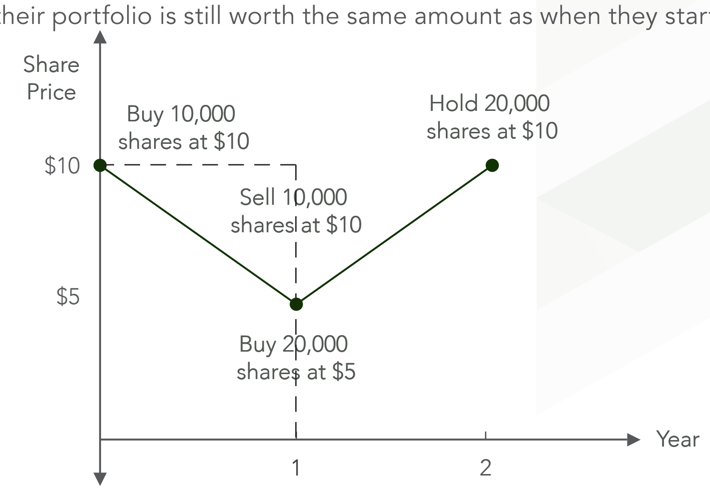
Example – Generic

An investor outlays $100,000 and purchases 10,000 shares in company XYZ for $10 and protects it for a 12 month period with a $10 Put option. The cost of this Put option is $1.00 per share. At the end of 12 months the shares have fallen to $5. Because the investor has the right to sell their holdings at $10 they do not suffer the fall that other unprotected investor's experience. The investor is able to sell their 10,000 shares at $10 and recoup their initial investment of $100,000 less the cost of the option ($10,000).

Supposing the investor still wanted to hold the stock, they can now buy 20,000 shares in company XYZ for $5. Even though the share price has halved in value the investor has not lost 50% of their money and has the potential to double the number of shares they hold in the company if they wish to continue to maintain a $100,000 exposure in the company.

Assuming the share now rebounds from $5 back to $10, the investor now holds 20,000 shares in XYZ worth $10 per share. This holding is now worth $200,000. This investor has made a significant return even though the share price of XYZ has moved sideways.

For the investor that did not protect their portfolio, they simply hold their original 10,000 shares at $10, which means their portfolio is still worth the same amount as when they started.



Example – Westpac WBC (Held from 2007 to 2013)

This is an example of a holding in WBC that investors have held since November 2007 and illustrates the power of the PEP Strategy over the economic cycle. We have assumed the cost of the Put options are offset by the dividends to simplify the example.

In November 2007, just before the Global Financial Crisis (GFC), 10,000 Westpac shares were purchased at $30. When the shares were purchased for $30, a 13 month (December 2008) $30 WBC Put option was also purchased to protect the share holdings. When the Put option expired 13 months later, the investor sold their 10,000 shares at $30. With the $300,000 in proceeds they then purchased 19,608 shares (96% more shares) at $15.30 per share.

The shares then rose from $15.30 per share to $24, twelve months later. At this point the investor was able to buy a $24 Put option to protect their position and lock in an $8.70 gain. The portfolio was now worth $470,588 (19,608 shares at $24), or a 57% gain on the portfolio.

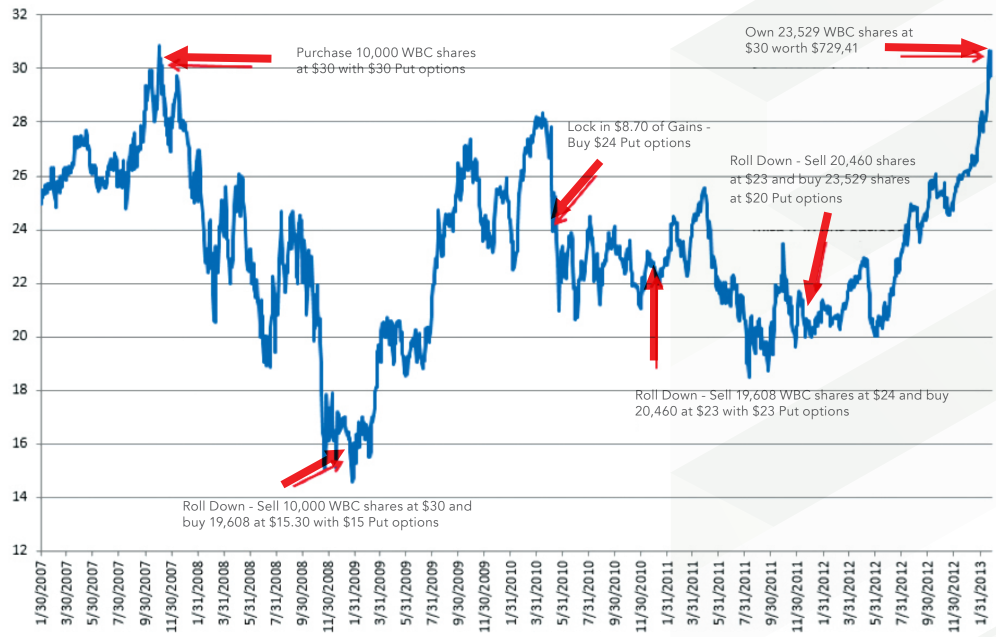
WBC shares fell the following year from $24 down to $23. The investor sold their 19,608 shares at $24 ($470,588) and then purchased 20,460 shares at $23 (4% more shares), and Put options with a $23 strike price.

The following year WBC shares were trading at $20. Again the investor sold their 20,460 shares at the protected value of $23 ($470,588), and purchased 23,529 shares (15% more shares) at $20.

The share price then rallied back to $25.95 in December 2012, and on to $31 by December 2013. At this point the portfolio was worth $729,411 (23,529 shares at $31).

The purpose of this example is to illustrate how the PEP Strategy is able to create substantial wealth for investors even when a market tracks sideways. At the beginning and end of this example the share price was close to $30, so for an ordinary buy and hold investor their portfolio hasn't grown over this time. This example has assumed the cost of Put options are equivalent to the income received from WBC.

The portfolio using the PEP Strategy was able to grow from $300,000 to $729,411 while minimising downside risk because it was protected along the way.



Source: Yahoo Finance

3. Benefits of the PEP Strategy

Exposure to Growth Assets – By investing into the PEP Strategy, investors are gaining exposure to potentially high growth assets, being shares. By managing downside risk using Put options and not simply by diversifying, the PEP Strategy is able to adopt a focused investment philosophy holding concentrated holdings of high growth shares to maximise returns. A typical portfolio will hold between 4 and 6 shares.

Direct Share Ownership – Because the PEP Strategy involved investors holding direct shares the investor receives all the benefits of direct share ownership such as dividends, franking credits, distributions as well as the capital growth of the shares. By holding direct shares, the PEP Strategy provides the investor with the transparency of valuation of their portfolio on a daily basis. Unlike managed funds, (who may not publish their individual trades) the PEP Strategy has a clear and identifiable trade history of all transactions on the account.

Limited Risk – The PEP Strategy is able to limit downside risk in investor's portfolios by having the protection in place that allows the investor to sell their stock position at the protected level at any time. With this protection in place at the buy in level investors know their maximum downside risk is the beginning of each trade.

Dynamic & Liquid – The shares and the options held within the PEP strategy are traded on the ASX and as such can be sold quickly should the investor need to liquidate their position. This liquidity means investors aren't locked into lengthy investment periods should their personal circumstances change. This liquidity provides investors with greater confidence to invest more heavily into the market knowing they can recall their capital at any time.

Individual Protection – Central to the PEP Strategy is the individual protection of each individual share in the portfolio and not protection of the portfolio as a whole. For example let's assume a portfolio had 4 stocks and 2 were up by 50% and 2 were down by 50%. The performance of this portfolio is 0% as the 2 positive stocks cancel out the performance of the 2 negative stocks (assuming dividends paid by the shares fund the cost of the Put options). With protection over each individual stock the investor is able to limit their loss on the 2 negative stocks to 0%, and still participate in the 50% growth of the 2 positive stocks. The PEP Strategy portfolio's performance with 2 stocks up by 50% and two stocks at 0%, is positive 25%, compared to 0% return in the unprotected portfolio.

Tailored Portfolio – The PEP Strategy allows each individual to tailor the strategy to their individual circumstances. Not all investor's portfolios are the same because the investor has the final say in the stocks held in the account and in what proportion. The PEP Strategy is not a one size fits all approach and allows for the portfolio to be varied, and therefore meeting the individual's needs.

Lock in the Gains – The PEP Strategy gives the investor the ability to lock in the portfolio's gains by increasing the capital protection when the share price rises. For example if after buying ANZ shares at $30, they rise to $36 the investor is able to lock in these gains by increasing the level of insurance and buying a $36 Put option.

Reduced Volatility – Investors have the peace of mind (sleep at night factor) knowing that their capital is protected from downside moves in the market if there are periods of extreme volatility and sharp downwards movements.

Increase Share Holdings in Falling Markets – By having capital protection and being able to sell at the strike price of the Put option, investors are able to sell high when markets fall, and then buy back down at the lower level. If a stock were to fall from $10 to $5, and a Put option with a strike of $10 has been purchased, the investor could sell their shares at $10 and then have the potential to buy twice the number of shares at a later date at $5.

No Sapient counter-party risk – Every PEP Strategy account is held in the investors own name with the ASX under a CHESS Sponsored Holder Identification Number (HIN), so the investor does not take on any counter-party risk to the person who is selling the shares and options. Nor do they take on any risk to the person trading the shares and the options, or to Sapient because the shares and options are held in the investors account with the ASX. Counter-party risk is limited to the clearing house owned by the ASX. Normally if an investor were to invest with a fund manager they would hold units in that fund manager's fund and could be at risk if the fund manager goes bankrupt – something investors have experienced during the GFC. Under the PEP Strategy the investor is not at risk of Sapient going bankrupt. This is because the investor still holds their stocks and options in their own account with the ASX.

No Concentration Risk – Many investors are often concerned about holding their wealth in a portfolio of stocks because it is concentrated into only a handful of shares. The fewer the number of securities in a portfolio, the greater the risk that the overall performance of that portfolio will be significantly affected by the poor performance of any particular security, and the greater the concentration risk. With individual protection this risk of the portfolio suffering loss from the poor performance of one stock is reduced because investors can sell the poor performing stock at the strike price of the Put option.

Zero Brokerage – Investors do not pay any brokerage on any trades in their portfolio and hence eliminate the risk of 'churning' (having their portfolio traded by their broker just to generate brokerage). The fee structure is an asset based fee determined by the portfolio value which better links the fees to the performance of the investment and the size of the fund. For a full outline of the fees see the Fee Schedule further down.

All Share Holdings on One Account – In addition to the core holdings in the PEP Strategy, investors are also able to hold other unprotected shares that they might have small holdings in, such as IPO's they have participated in previously, or small cap stocks they might trade volatility on. This provides investors with one central share holding account.

Invest with the benefit of hindsight – By holding Put options over the portfolio investors can look back over time choosing to exit the market at the higher price if the market falls below the protected level.

No emotion based decisions – By holding a Put option in the PEP Strategy the investor has increased decision making time as they are not forced to make a decision to sell in a volatile falling market, as they can always sell the stock at the protected level. This removes the need to make a rushed and emotional (most often fear) based decision.

Active Involvement in Decision Making – All transactions in the strategy are determined by the investors before they are traded, this ensures the investor maintains full control in the decision making process.

Income Potential via dividends – By holding shares, investors are entitled to the income that is distributed by the company in the form of dividends. These dividends may also have franking credits attached to them which means the tax has already been paid by the company. Most companies pay dividends twice a year; an interim (half year) dividend, and a year-end (full year) dividend. These dividends will be credited to the investor's linked bank account and could pay for future capital protection of the portfolio (the buying of the Put options).

Income Potential via covered Calls – When writing covered Calls investors tend to write these Calls out of the money (higher than where the shares are currently trading). This means investors are giving someone else the right to buy their shares at a higher price in the future while also getting paid a premium for selling this right. In this case the investor not only receives the premium for writing the Call, but also the potential growth in the shares up to the strike price of the Call.

The idea behind writing covered Calls over the shares is to generate additional income in the portfolio, and to further offset any cost associated with buying the Put options for the capital protection. Writing covered Calls, is not essential and is merely a strategy investors may adopt from time to time. The details around how the options are traded are outlined in Section 6 - Other Important Information.

4. Risks of the PEP Strategy

This is not an exhaustive list of all risks and when considering the risks associated with the PEP Strategy investors should seek independent financial advice as to whether or not the strategy and the risks meet your personal financial circumstances.

Dividend Risk – There is a risk that companies may change their dividend payouts based on changes in their profitability, or their dividend payout ratios. If the company decreases their dividend then the portfolio will receive a lower than expected dividend return for that period.

Protection Level Risk – The Put options used to protect the portfolio have predetermined strike levels which may not match up exactly with the level the stock is trading at. For example ANZ shares may be trading at $25.25, but the Put option strikes for ANZ are $0.50 apart and therefore are $25.00 and $25.50. If the stock is purchased at $25.25 then the choice will be to protect at $25.00 or $25.50. If the $25.00 level is chosen then the shares will have $0.25 unprotected. The investor always has the choice as to what level they implement protection, and they need to realise if the protected level is below the buy in level of the underlying share then the difference between this and the strike price of the Put option is at risk.

Insurance Costs – The cost of the Put options will vary and there is a risk this protection prices may increase during times of extreme volatility. Investors do not have to hold stocks forever and if they decide the cost of the protection is too high they can choose not to hold the stock at all, or to protect the stock at a lower level where the protection (Put option) cost is cheaper.

Calculating Risk when entering a position – Investors are able to calculate downside risk using the following formulas.

Assuming the share is protected at the price it is bought at;

Downside Risk = Put Option Premium + Asset Based Fee – (Dividends & Franking Credits) – Call Option Premium (if any).

If the share is protected below the price it is bought at;

Downside Risk = Unprotected Amount + Put Option Premium + Asset Based Fee – (Dividends & Franking Credits) – Call Option Premium (if any).

Taxation – The buying and selling of shares may have capital gains tax and income tax consequences. You should consult a tax professional for advice on such consequences.

Share & Option Price Movements – The shares or options that you purchase may go down in value over the holding period. The shares and the Put options will generally tend to move in opposite directions and therefore a fall in the share price will be protected by the value of the Put option when it is held to maturity.

Holding Time frame – It is important to hold a Put option with an expiry that matches your view on the market. For example if you have a view that a share is going to appreciate over a 12 month period it is important to hold a 12 month option to ensure it doesn't expire too early.

Buy/Sell Spread – The Buy/Sell spread in the options market may mean that the full intrinsic value of the option may not be received, should you wish to trade out of the position prior to the option expiring.

Early Exercise – If you sell a Call option this may be exercised at any time by the purchaser. If the options are exercised then you (the option seller) will be required to deliver the number of underlying shares for which your options contract covers.

5. Fees and Charges

The following expenses are associated with the Sapient Financial Solutions PEP Strategy.

1. Set Up

Sapient is charged a set-up fee by the executing broker when your account is established however this charge is not passed on to you and is absorbed by Sapient.

2. Sapient Financial Solutions Asset Based Fee

The asset base fee is paid to cover the costs of administering, trading, settling and providing general advice on the PEP Strategy on your account. The fee is charged on a stepped scale basis, whereby an increase in your portfolio balance results in a decrease in the asset based fee charged. Asset based fees are expressed as a per annum fee and divided by 12 to calculate monthly.

The Fee Schedule is as follows:

First $500,000	– 2.2% inc GST
Next $500,000	– 2.0% inc GST
Next $1,000,000	– 1.8% inc GST
Next $3,000,000	– 1.65% inc GST
Next $5,000,000	– 1.375% inc GST

For example a portfolio with an end of month valuation of $200,000 would be charged 2.2% on the first $500,000 and then 2.0% on the next $100,000. The fee charged for this portfolio for the month would be $367.

($200,000 * 2.2%) / 12 months = ($4,400) / 12 = $367

The asset based fee is calculated based on the value of the share portfolio at the end of each month, and accrues from the first day the account is open using Sapient. Please note, Sapient does not charge an asset based fee on the cash balance in the linked bank account. If your portfolio is between trades, or is temporarily withdrawing from the market then this cash portion of the portfolio will not have fees charged on it.

A minimum monthly fee of $200 + GST applies.

3. Exit Fee

A 2.2% exit fee is charged on the total value of the account if you withdraw the investment within 1 year of the portfolio being activated.

4. Fail Fees

Investors are required to settle the buy and sell transactions of shares and options on their account in a timely manner. Failure to settle these transactions will incur fail fees with the Australian Securities Exchange and range from $50 to $500 depending on the size of the trade. These fail fees will be charged by the broker, and Sapient will direct debited these fees from your account. In no way does Sapient Financial Solutions profit from these fail fees.

5. Australian Clearing House Fees

The Australian Clearing House charges a fee of $0.143 (inc GST) per option contract that is traded and $0.55 (inc GST) per option contract that is exercised. These fees and charges are disclosed on the ETO contract note and will be added to or deducted from the settlement amount. These fees are not charged by Sapient Financial Solutions and we in no way profit from them.

6. Special Request Fee

Where you make special administrative requests to Sapient, we reserve the right to negotiate a special fee deductible from your account. Such a special fee would not be deducted without agreement from you first.

7. Zero Brokerage

For all transactions that are part of the PEP Strategy you are charged zero brokerage. If you wish to transact on securities or ETO's that are outside the scope of the strategy you can discuss a brokerage rate for these individual transactions.

8. Direct Debit/Credit Dishonour Fees

Transactions on your portfolio will be settled via direct credit or direct debit to your linked bank account. Should any of these debits/credits fail the bank may charge you a dishonour fee. Currently Macquarie Bank do not charge any dishonour fees for any failed direct credits or debits on the Cash Management Account. It is your responsibility to ensure there are sufficient funds in your linked bank account to settle transactions. These dishonour fees are not charged by Sapient Financial Solutions and we in no way profit from them.

Should you have any questions about any of these fees and charges please contact your Investment Advisor.

6. Other Important Information

Applications

Once you decide to invest using the PEP Strategy, Sapient will prepare the applications forms for the trading account and the bank account, as well as the relevant PDS's. Once your accounts are established and ready to transact Sapient will be in contact.

Management of your account

Once your account is established your Sapient Advisor will be in contact to provide you with the service you require to execute the strategy. Initially when buying into shares Sapient will be able to provide you with a list of shares and the associated Put protection costs depending on what price you wish to protect them at. Sapient will also be able to provide you with a choice of Call options that you can sell over your shares to drive some extra income from your holdings.

On existing share holdings you may wish to increase the level of protection when the market rises, and lock in these gains by buying a higher priced Put option (Rolling Up). At this point Sapient will be able to provide you with prices on new Put options at the higher strike. Alternatively if the market falls you may wish to exercise your Put option and sell your shares at the higher protected level and then buy back in at the lower level (Rolling Down). Sapient will be able to execute these instructions for you and provide you with the required information.

'Rolling Up', 'Rolling Down' and 'Rolling Out' Put option positions are explained in more detail below.

Sapient will communicate with you all transactions on your account so that you are always kept informed of the performance and transactions that are taking place. Should your accountant or any other professional services provider wish to discuss any transactions or the strategy we are happy to liaise with them provided we have your prior authorisation.

Rolling Up & Rolling Down your Put Option Position

The terms Rolling Up and Rolling Down refer to the buying and selling of new Put & Call options when the price of the underlying share rises and falls.

Rolling Up a Put option position is when the share price has risen in value and an investor protects this rise in value by buying a new Put option over the share at a higher exercise price. By buying the new Put option the investor now has the right to sell the share at this higher exercise price at any time from now until expiration of the newly purchased Put option.

For example if a share were to rise from $10 to $15 an investor may wish to buy a $15 Put option so and lock in the gains so they can sell the share at $15 anytime now or in the future. If the previous Put option was at say $10 then the investor has just locked in a $5 gain in the share price buy buying the

$15 Put option. Even if the share now falls from $15 back to $10 the investor has the right to sell the stock at $15. The transaction to Roll Up this option would be to sell the existing $10 Put option (if it had any value) and buy the new $15 Put option (and usually required an additional outlay to cover the cost of the new Put option).

Similarly if you have any sold Call options over that share, you could buy back the Call option and sell another Call option with a higher exercise price.

Rolling Down a Put option is when an investor holds a share and has it protected with a Put option, and the value of the share falls. The investor is able to sell their shares at the protected level and then buy back into the market at the lower level. Because you are selling shares at a higher price and buying them back at a lower price, there is the opportunity to buy more shares at the lower price for the same dollar outlay. For example if the share price fell from $15 to $10 you could sell 100 shares at $15 and would be able to buy 150 shares at $10. You've just increased your shareholdings by 50%.

If you have any sold Call options over that share, you could buy back the Call option and sell another Call option with a lower exercise price (usually you will receive positive funding for this).

This Rolling Up and Rolling Down of positions is a key feature of the Sapient PEP Strategy. It provides investors with the flexibility to lock in the gains when the market rises by buying a higher priced option, and, also the flexibility to sell at the higher protected price when the market falls and buy more shares at the lower price.

Option Renewal (Rolling Out your Put Option Position)

All Put options purchased have an expiry date, and at this point you will decide whether or not to renew your Put option and at what strike. Commonly investors choose to buy Put options for a duration that will cover 12 months' worth of dividend payments. Rolling Out refers to purchasing a new option with an expiry date which is further in the future.

For example if an investor had purchased a share at $10 and purchased a 12 month Put option, and after 12 months the share was still trading at $10, the investor would need to purchase a new Put option to protect their portfolio for another 12 months.

Instructions and Communication

Sapient will develop a close working relationship with you and keep you informed of all administration issues associated with your account and all upcoming expiring options. Sapient can also keep you updated on the performance of the individual shares in your portfolio and provide scenarios for you to Roll Up or Roll Down your positions to take advantage of market movements. For all share and option transactions you must deliver instructions either face to face or via telephone. This is to ensure that all instructions are actioned in a timely manner as instructions sent via post, fax or email cannot be guaranteed to be actioned. Instructions can be given to either trade a share or an option at a certain price (limit order) or at the market price at the time of trading (market order).

Corporate Actions

You will receive notification of any corporate actions that take place on the shares you hold. Your Sapient Advisor will be able to answer any questions you may have regarding all corporate action on your account.

Transfer of Securities

You can fund all or part of your investment in the PEP Strategy by transferring your ASX listed shares from another broker or issuer holding. You may choose to transfer your entire HIN from another broker or just individual securities.

Executing Broker

To action the PEP Strategy, Sapient will assist you in establishing a share and option trading account which Sapient has the authority to act. Sapient has relationships with a range of executing brokers and will provide you with the PDS and application forms to establish this account.

Cash Account

When investing into the PEP Strategy Sapient will assist you in establishing a Macquarie Cash Management Account (CMA). This account is used to settle all share and option transactions. The purchasing of shares, Put options and Call options will be debited from this account Any sales of shares, Put options, Call options and dividends will be credited into this account. It is also used to meet any fees and charges payable and these will be debited from your account. Sapient Financial Solutions will have Inquiry Authority and Fee Authority on this account so that we can view the account at any time to ensure transactions will settle and to direct debit our monthly fees. When the bank account is initially established you will be provided with a Macquarie CMA PDS for you to read, ensuring you fully understand the service. The account pays competitive interest rates and is covered by the government guarantee.

Taxation

Sapient is not licensed to, and does not provide taxation advice to investors or consider tax implications for the PEP Strategy. Sapient recommends you seek independent tax advice before investing into the PEP Strategy. Sapient is able to communicate with your accountant or tax advisor to discuss any administration issues, provided we have your prior authorisation.

Account Size

The minimum account size to participate in the PEP Strategy with Sapient is $100,000. Portfolio sizes below $100,000 may be considered but this is at the discretion of Sapient.

Investment Time Frame

The PEP Strategy does not have any set minimum or maximum time frame, though the strategy is a medium to long term wealth accumulation strategy.

Reporting

At the end of each financial year, Sapient will be able to provide you with a complete transaction history of your account for the period. Sapient will be able to provide you with interim reports, however there may be a charge for these tailored reports.

General Advice Declaration

This Declaration of "General Advice" is based on the;
[D2MX Pty Ltd] PDS dated [31st December 2012] (PDS)
[Macquarie Cash Management Account] PDS dated [22nd May 2013] (PDS)
Protected Equity Portfolio Strategy Document dated 1st December 2013 (Document)

I/we..(insert name/s include entity name if investing as a company, SMSF or trust)

of...
(insert full address / State / Postcode)

I/We Acknowledge that I/we request that Sapient Financial Solutions Pty Ltd ABN 76 165 960 645 place/arrange on my/our behalf the below which is of my/our own choosing:

Online Share Trading – D2MX	Yes / No
Macquarie Cash Management Account (CMA) - Bank Account	Yes / No

Define as the **Financial Product**

I/We understand and accept full responsibility for my/our decision to open the listed trading/ investment Account(s) as selected 'Yes' above.

I/we confirm we were provided the "General Advice Warning" (below) and understood this before any general advice was provided to me/us.

General Advice Warning

"This General Advice Warning is issued by Sapient Financial Solutions Pty Ltd, corporate authorised representative of Australian Financial Services License No 434776. This information might contain general advice, which is provided without regard to any investor's individual objectives, financial situation or needs. It is not specific advice for any particular investor and is not intended to be passed on or relied upon by any person. Before making any decision about the general advice provided, you should consider the appropriateness of the general advice presented, having regard to your objectives, financial situation and needs. Any indicative information and assumptions used may change without notice to you, particularly if based on past performance. Further, you should read the Product Disclosure Statement relative to this advice before a decision is made".

I/we wish to confirm that only "General Advice" was sought by me/us from Sapient Financial Solutions and its Representatives in relation to arranging the implementation of this financial product on my/our behalf and that this information was in no way interpreted as financial advice.

I/we have read and understand the PDS, including the investment structure/s, risk and the fee structures in place for the Financial Product as outlined in the relevant PDSs.

I/we confirm the advice provided to me was "General Advice" only and I/we confirm no recommendation or personal advice was provided by Sapient Financial Solutions or its Representatives to me/us. At no time has the Sapient Financial Solutions' Representative stated, recommended or inferred that the Financial Product may be appropriate for me/us, or that they have considered my personal objectives, financial situation and needs.

I/We understand that by not seeking personal financial planning advice regarding the appropriateness of the Financial Product that I/we risk making a decision which may not be suitable for my/our financial needs.

I/We understand that I/we should obtain independent financial planning advice and professional taxation advice as to the suitability of the Financial Product having regard to my/our individual objectives, financial situation and particular needs. I/we also understand by not doing so I/we risk making a decision which may not be suitable for my/our individual objectives, financial situation and particular needs.

I/We understand that (a) Sapient Financial Solutions Pty Ltd ABN 76 165 960 645 is a corporate authorised representative of AFSL 434 776 and the investment advisors are individual authorised representative under the same AFSL; and (b) AFSL 434 776 is responsible for the financial services provided by each of you to us.

I/we confirm that all examples and illustrations used were for education purposes only and that these examples and illustrations were not used in any way to influence my/our decision.

After consideration of the appropriateness of this investment for my/our personal circumstances I/we chose to engage Sapient Financial Solutions for the opening of these accounts and Financial Products.

I/we understand and accept full responsibility for my/our decision to invest in the Financial Product.

I/we understand and accept that Sapient Financial Solutions and AFSL 434 776 accepts no responsibility for the quality and/or likely future performance of this financial product.

I/we agree that Sapient Financial Solutions may collect, use and store my /our personal information for the purpose of processing my /our Application, managing the investments and complying with the relevant laws in accordance with Sapient Financial Solutions Privacy Policy, a copy of which can be provided on my / our request. Such information may include but is not limited to Tax File Numbers ("TFNs"), Bank Account details, Drivers' License and Passport information. I /we also understand that I /we can access the personal information Sapient Financial Solutions holds about me / us.

I/we agree that I/we have received the following documents:

- Sapient Financial Solutions Financial Service Guide Version 1
- Advisor Profile Version 1
- [D2MX Pty Ltd] PDS dated [31st December 2012] (PDS)
- [Macquarie Cash Management Account] PDS dated [22nd May 2013] (PDS)
- Protected Equity Portfolio Strategy Document dated 1st December 2013 (Document)

....	....
Signature Applicant 1	Signature Advisor /Witness
....	....
Print Name & Title (e.g. Director)	Print Name
....	....
Date	Address
....	....
Signature Applicant 1	Signature Advisor /Witness
....	....
Print Name & Title (e.g. Director)	Print Name
....	....
Date	Address

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sapient™
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