

Defensive Share Portfolio - Performance Fee Structure

Firstly, we wish to thank subscribers for all the support following the release of the Defensive Share Portfolio PDS. We have been inundated with applications and queries. In responding to these queries we found many of them were about the fee structure of the DSP - this article addresses these queries.

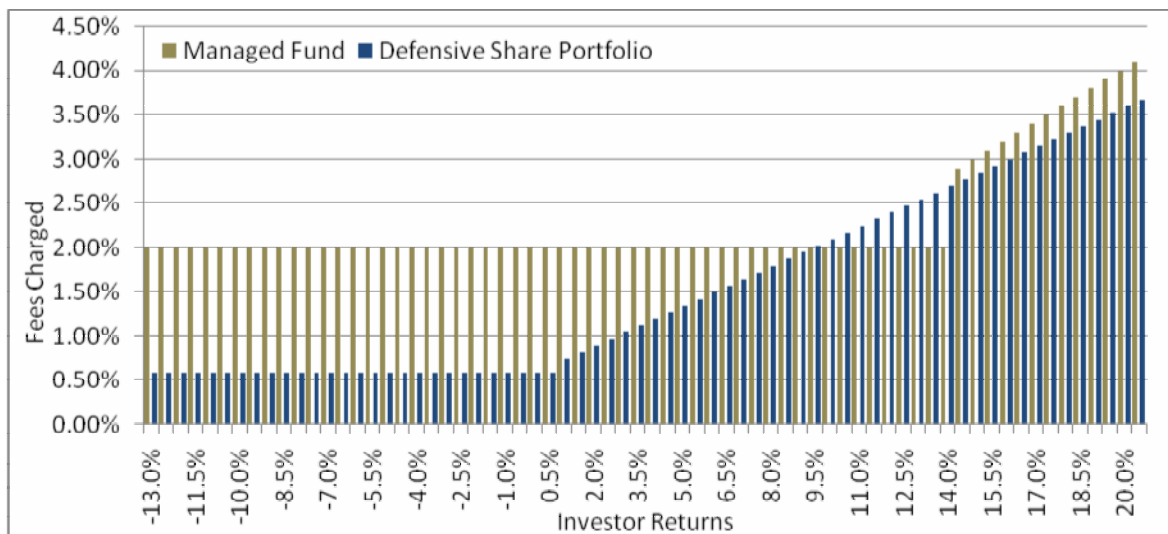
You Get What You Pay for!

Perhaps in a hardware store, but in the managed fund industry this is seldom the case! Traditional managed investments charge investors a fee for having their money invested regardless of performance, typically called - a management fee. On top of this, investors are also charged a performance fee whenever the fund outperforms a stated benchmark such as the S&P ASX200 Index.

Herein lies the problem. Pretend your toilet is leaking - would you hire a plumber on the basis that you pay \$180 if the plumber doesn't fix the leak and \$230 if the plumber does? No. Then why do investors accept this philosophy when it comes to investing their life savings? Investstone Wealth Management sought to address this issue when creating the Defensive Share Portfolio SMA.

Defensive Share Portfolio - Fee Model

The theory underpinning the DSP fee structure is to create an environment in which the success of one is dependent on the success of the other. The graph below illustrates this relationship, tracking the fees an investor is charged against the returns they receive. The traditional managed fund fees are largely unrelated to the performance of the investor, except when the fund does exceptionally well and the fund manager wants to share a slice of the good times - but will they ever want to share a slice of your bad times? Conversely, the DSP largely follows the same fate as the investor. During negative performances the fees are only 0.6% - an administration fee charged by BlackRock and no fee from Investstone. In fact Investstone cannot start charging investors a fee until the fund is in positive territory above the current water mark. The water mark is set as the highest monthly value of your portfolio and fees cannot be charged until such time as the value of your investment is higher than the water mark.



The example below explains how the performance fee is calculated.

Performance Fee Examples	Table 1.1
	DSP
Performance Fee Rate	15%
Value of Allocation to each Portfolio	\$100,000
Portfolio Performance for Day 1	0.75%
Value of Portfolio - Close of Day 1	\$100,750.00
Accumulative value added for month	\$750.00
Portfolio Performance - Value Added	\$750.00
Out-Performance (Value Added) - Day 1	\$750.00
Base for Performance Fee at close of day 1	\$750.00
Portfolio Performance Day 2	0.75%
Value attributed to Model - Close of Day 2	\$101,505.63
Accumulative value added for month	\$1,505.63
Portfolio Performance - Value Added Day 2	\$755.63
Out-Performance (Value Added) - Day 2	\$755.63
Base for Performance Fee at close of day 2	\$755.63
Portfolio Performance Day 3	-0.25%
Value attributed to Model - Close of Day 3	\$101,251.86
Accumulative value added for month	\$1,251.86
Portfolio Performance - Value Added Day 3	-\$253.76
Out-Performance (Value-Added) - Day 3	-\$253.76
Base for Performance Fee at end of Month	\$1,251.86
Loss Carried-forward to the following month	\$0.00
Overall Value Added for Period	\$1,251.86
Performance Fee Payable (15% × \$ 1,251)	\$187.78

Let's assume you invest \$100,000 in the Defensive Share Portfolio (DSP); each day the performance of the portfolio is recorded. At the end of the month the aggregate daily performance is calculated. Then from this figure the performance fee is calculated. Table 1.1 illustrates this using 3 days to equal a month.

Now, assume at the end of the month the value of the portfolio had dropped below your initial investment. No performance fees could be charged for the months ensuing until such time as your capital is returned past the initial level.

This performance only fee structure ensures your investment in the Defensive Share Portfolio is hard at work for you.

So, in which structure would you choose to have your money? With a fund manager who gets paid regardless of the return they deliver, or a fund manager who will work harder in a falling market to provide you with positive returns so they get paid?

We thought so, and that is why we structured our fees this way.

The investments in the Defensive Share Portfolio have been growingly steadily. If you would like to invest please fill in the application form at the back of the PDS. Please note you must complete the Nominated Representative Form, and sign the direct debit form if your initial and/or subsequent contributions are to be debited in order for the application to proceed.

Disclaimer :All investment decisions need to be made with completion consideration of personal circumstances which are different for every investor. The information herein is general advice only and investors need to read and understand the PDS and/or seek professional advice before making any investment decision.

For a copy of the Defensive Share Portfolio PDS - please call (03) 9663 1570, or go to www.investstone.com.au/portfolio.php to view a copy of the PDS online.