



BARON POINT FINANCIAL

Portable Alpha: An Asset / Liability Matching Framework

March 2007

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# Who are we?



## Baron Point Financial, Ltd.: Boutique Wall Street Specialist in Alternative Investments

- New York City and Thailand-based specialist investment advisory team averaging over 26 years each in alternative investments, structured products, investment banking, and trading
- According to *Morningstar* Chief Investment Officer's long-term investment record ranks in the top 25%. *Barron's* has twice ranked him the top Global Macro Fund Manager for superb annualized performance
- Chief Investment Officer is expert focused on risk, credited with Patent # US 7,464,052 B1 Portfolio Accounting and Risk Management System
- Principals of firm have acted in an advisory or principal capacity overseeing the acquisition and management of several billion USD of assets successfully
- Appointed consultant and agent for select over-the-counter derivatives by the Royal Bank of Scotland plc

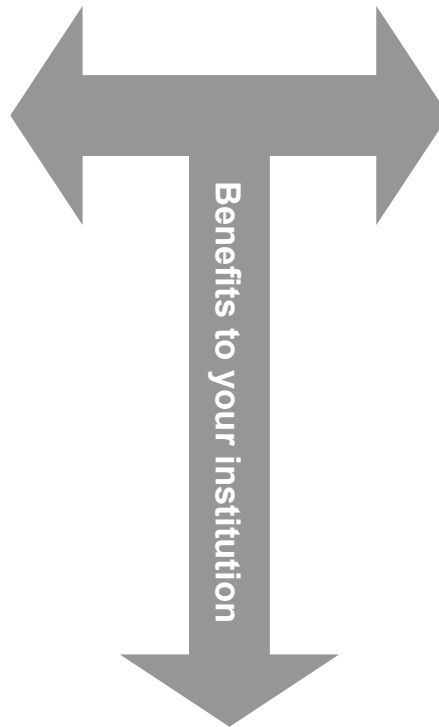
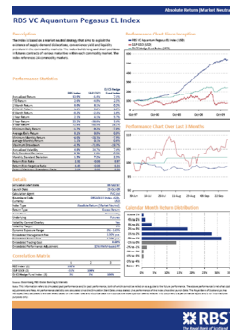
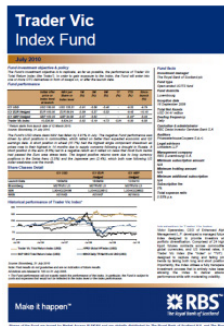
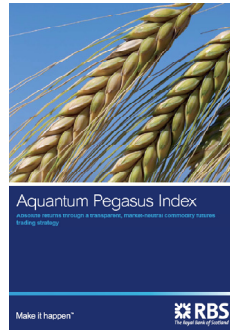
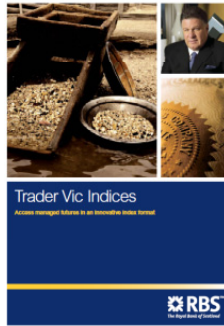
## Ryan Labs Asset Management manages fixed income vehicles for institutional investors

- Fixed Income Strategies since 1988
- Advisor on over \$250 billion US in institutional liabilities.
- Develops market indices and index replication models, such as: Lehman Brothers Aggregate Index, Citigroup Broad Investment Grade ("BIG"), and the Merrill Lynch Domestic Master Index, as well as more than 900 other custom liability indices.

# Business Model for Best-of-Breed Structured Product Solutions



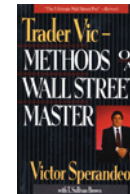
- The world's largest company by assets and Rated A+ by S&P
- Principal protection by a global bank with state-owned backing
- Investment Bank platform dedicated to working with 3<sup>rd</sup> parties
- Providing exposure to Trader Vic and Aquantum, exclusively



**BARON POINT FINANCIAL**

## Investment Advisory & Institutional Client Sourcing

- Financial Innovators
- Focused on institutional risk management
- Wall Street deal making knowledge and experience
- Unparalleled access to quality institutional clients and counterparties
- Persistence and tireless commitment to client service
- Vision to add value to the institutional community



## "Trader Vic" Brand

- 40+ years experience
- Victor Sperandeo can be used for education
- Ongoing performance updates
- Daily attribution files
- Monthly position/exposure reports
- Monthly commentary



## Growing Assets with Decreased Liability

- Capital Preservation
- Designed to protect in inflationary or deflationary environments
- Seeking Superior Targeted or Guaranteed Coupons
- Demonstrates Non-correlated asset class behavior



Investing in structured products carries risks. Past performance is not a guarantee of future results. Please read the Offering Materials prior to investing.

This Discussion is About?



Portable Alpha in an Asset \ Liability Matching Framework

## Causes for Concern



1. Asset Only Framework
2. Traditional Asset Allocation using “Mean Variance”
3. Actuarial Smoothing Practices
4. Accounting Pro forma Return Assumptions

What would you need from your alpha strategy?

**Assume Actuarial Expected Return on Assumption = 8.0%**

Asset Allocation	=	50.00% in Lehman Aggregate Bond
Expected Bond Return	=	4.50%
Expected Non Bond Return	=	11.50%
Current Funding Level	=	90.00% (negative leverage)

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**Return Required on Available Assets =  $11.50\% / 90\% = 12.77\%$**

## Possible Solutions



1. Transparency + Fair Value Accounting
2. Asset/Liability **Risk** Management
3. **Portable Alpha** (*Strategic/Tactical*)

# Portable Alpha



## **Problems with Traditional Definition of Portable Alpha**

1. Loosely Defined Process
2. Difficult measuring performance
3. Difficult comparing strategies
4. Leverage not allowed by Investment Policy Statement
5. Not widely practiced
6. Asset only framework

# Portable Alpha



## We define Active Management as the sum of 3 portfolios

1. An Index Portfolio (*Liability index portfolio*)
2. An actively managed equity portfolio (*Pure Alpha*)
3. Excess Liabilities = Negative Beta (*Offset by Portable Alpha*)

## Benefits of a Building Block Approach

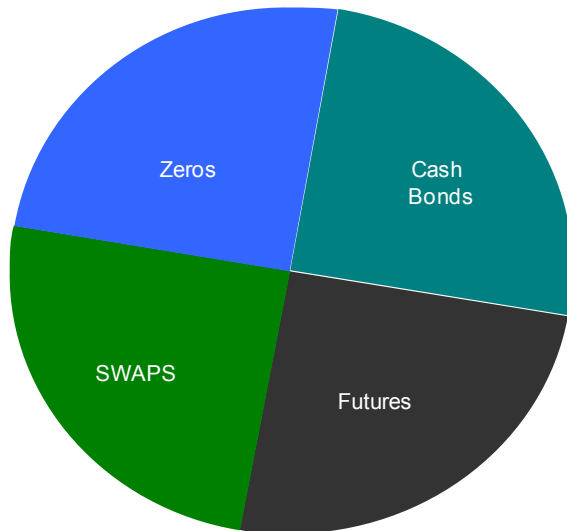


- Obeys the client objective
- Process Driven
- Daily risk and performance measurement
- Economic Focus
- Portable Alpha blocks offset negative beta

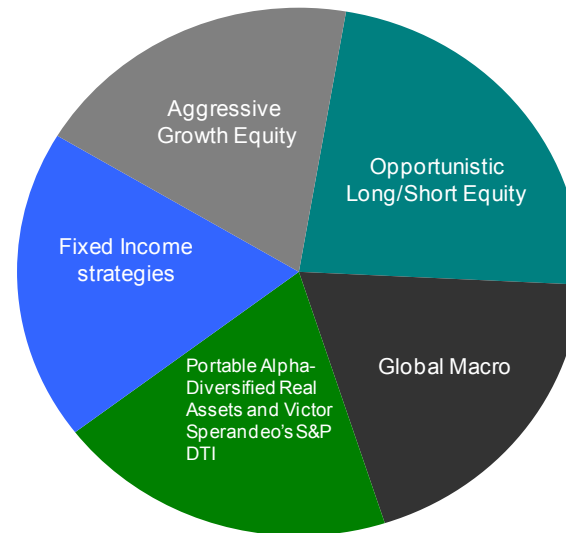
# Portable Alpha



## BETA (LIABILITY) PORTFOLIO



## ALPHA PORTFOLIO

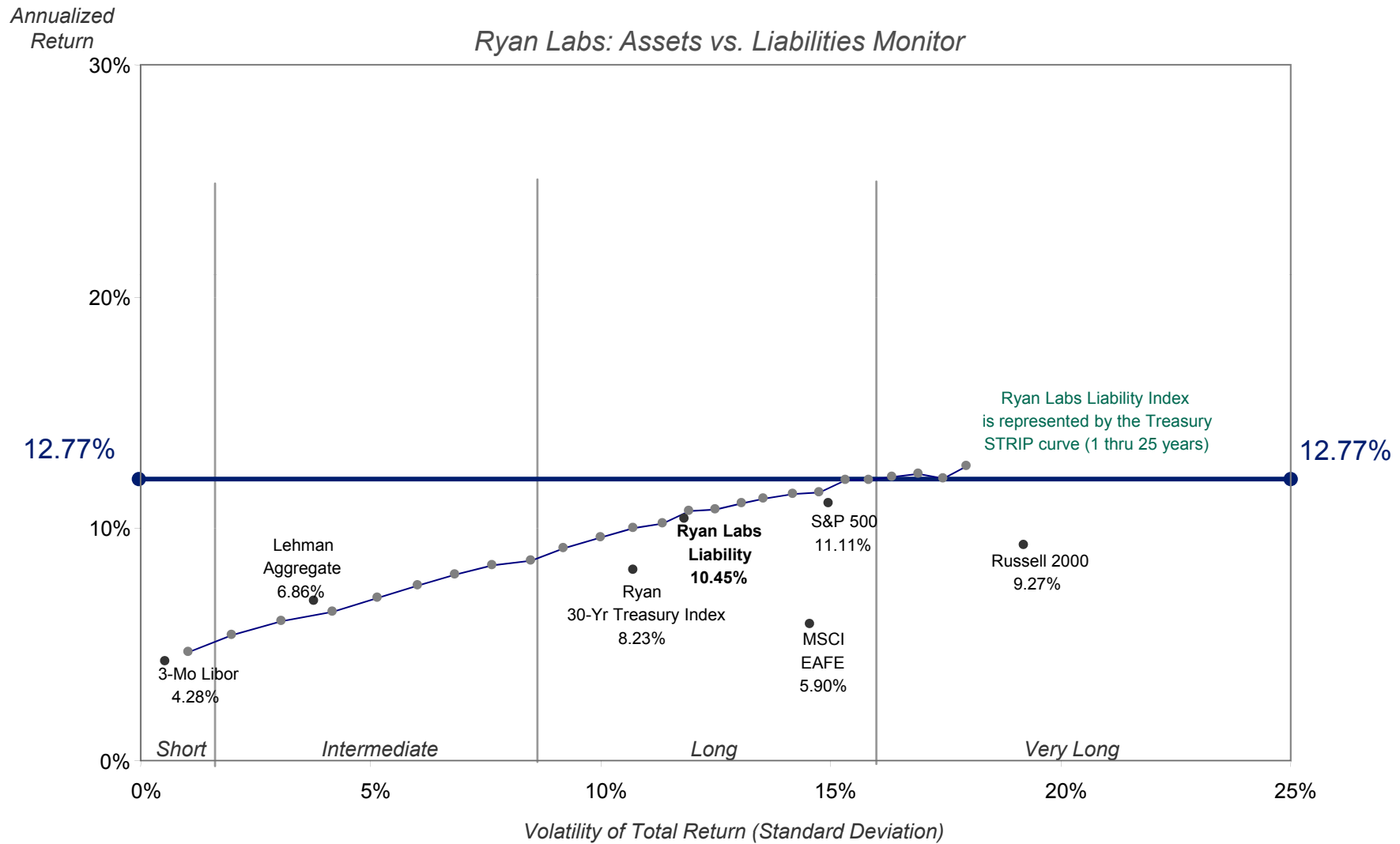


# Deficit Reduction Strategy



1. Economic Solvency (Marked-to-Market)
2. Cash Flow Budgeting
3. Liability Portfolio = Beta Portfolio  
*Liability Matching Strategies (Zeros, Cash Bonds, Futures, Swaps)*
4. Sources of Alpha  
*Conventional and Alternative Asset Classes (Low correlation)*
5. Harvest Alpha  
*Raise Beta Returns and Elevate the Yield Platform*

# Where can you get 12.77% annual returns?

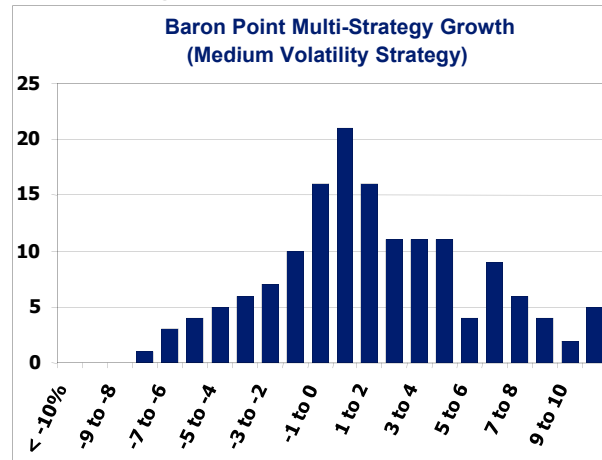


Sources: Ryan Labs, Inc, Baron Point Financial, Ltd., Standard & Poor's, Lehman Brothers, Frank Russell Company, Wilshire Asset Management. The information presented herein was compiled from sources believed to be accurate. It is intended for illustrative purposes and is furnished without responsibility for completeness or accuracy.

# Example Distribution of Returns

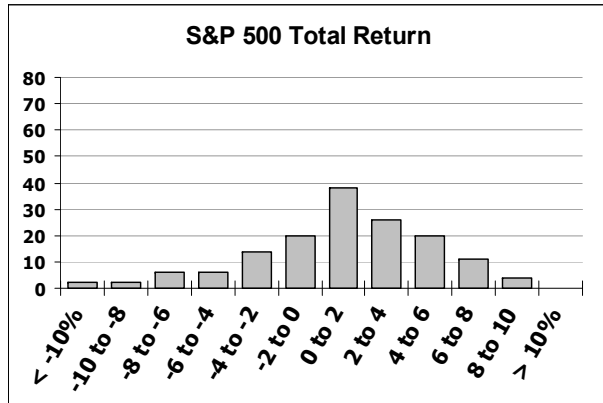
(7/30/1994 – 03/31/2007)

## Positively Skewed Upside Potential

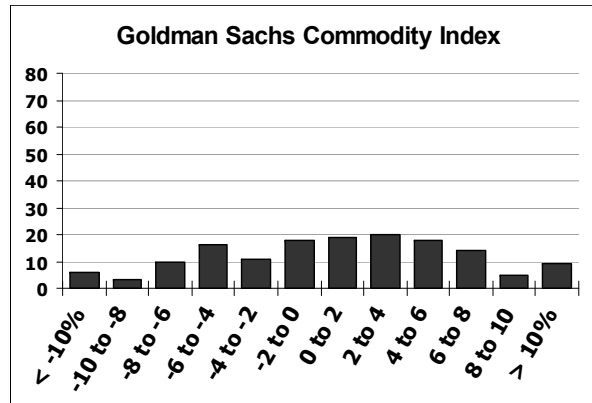


vs.

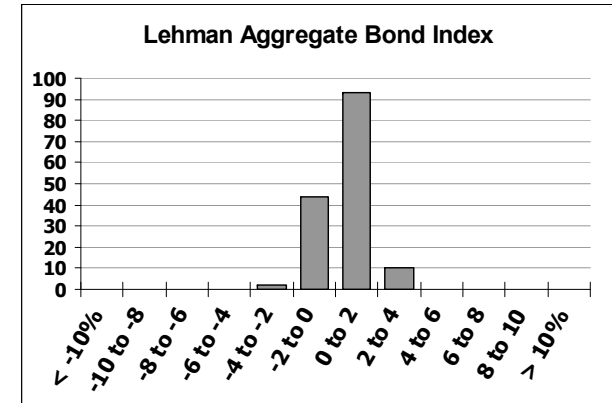
### Inconsistent



### Inconsistent



### Capped

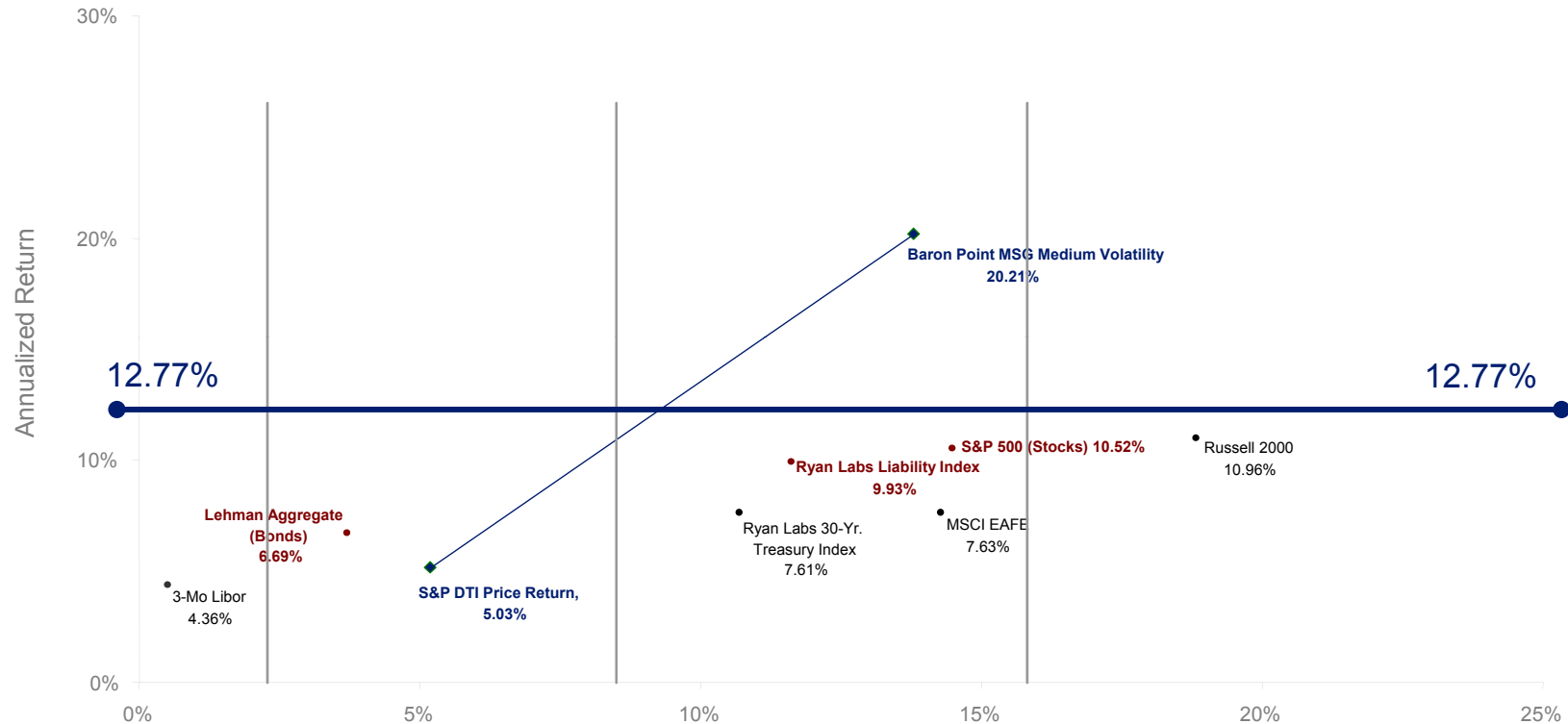


Baron Point Multi-Strategy Growth performance is based on "Representative Trading Account(s)" managed by the Fund Managers operating the underlying strategies net of expenses and the 2% management and 20% incentive allocation. The Representative Trading Account(s) maintained the same strategy, analyst and a trading team consistent with that being implemented by the Fund. Past performance is not a guarantee of future results. This information must be read in conjunction with the Private Placement Memorandum of the Fund.

Investing in alternative investments and structured products carry substantial risk. Investors could lose their entire investment. Past performance is not a guarantee of future performance. This informational brochure is not an offer to buy or sell securities. Offer of securities by prospectus only. Please read all offering materials carefully before investing. The information presented herein was compiled from sources believed to be accurate. It is intended for illustrative purposes and is furnished without responsibility for completeness or accuracy.

## Return v. Volatility 8/1994 – 12/2006

**Blue Squares Represent Baron Point Current and Potential Product offerings<sup>1</sup>**



1. The data used for the S&P DTI sourced from Standard & Poor's ("S&P"). The S&P DTI performance depicted reflects the further deduction of fees which includes the cost of a derivative and the Standard and Poor's license fee. Baron Point Financial, Ltd. ("Baron Point" or the "Funds") are based on performance since the inception of the Fund, and for a "Representative Trading Account(s)" managed by the Fund Manager operating the Fund net of expenses and the 2% management and 20% incentive allocation. The Representative Trading Account(s) now reside in the Fund. The Representative Trading Account(s) maintained the same strategy, analyst and a trading team consistent with that being implemented by the Funds. Past performance is not a guarantee of future results. This information must be read in conjunction with the Private Placement Memorandum of the Fund.

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2. Duration cells for investment time horizon to achieve the desired results as defined by Ryan Labs, Inc. Short (0 to 1 year), Intermediate (1 to 10 years), Long (10 to 20 years), and Very Long (20+ years). Ryan Labs', the designer of the first Liability Index in America, analysis reveals that asset allocation decisions are enhanced by knowing the percentage allocation a portfolio maintains organized by short, intermediate, long, and very long funding expectancies, which can enhance decision making and the achievement of rate of return goals.

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