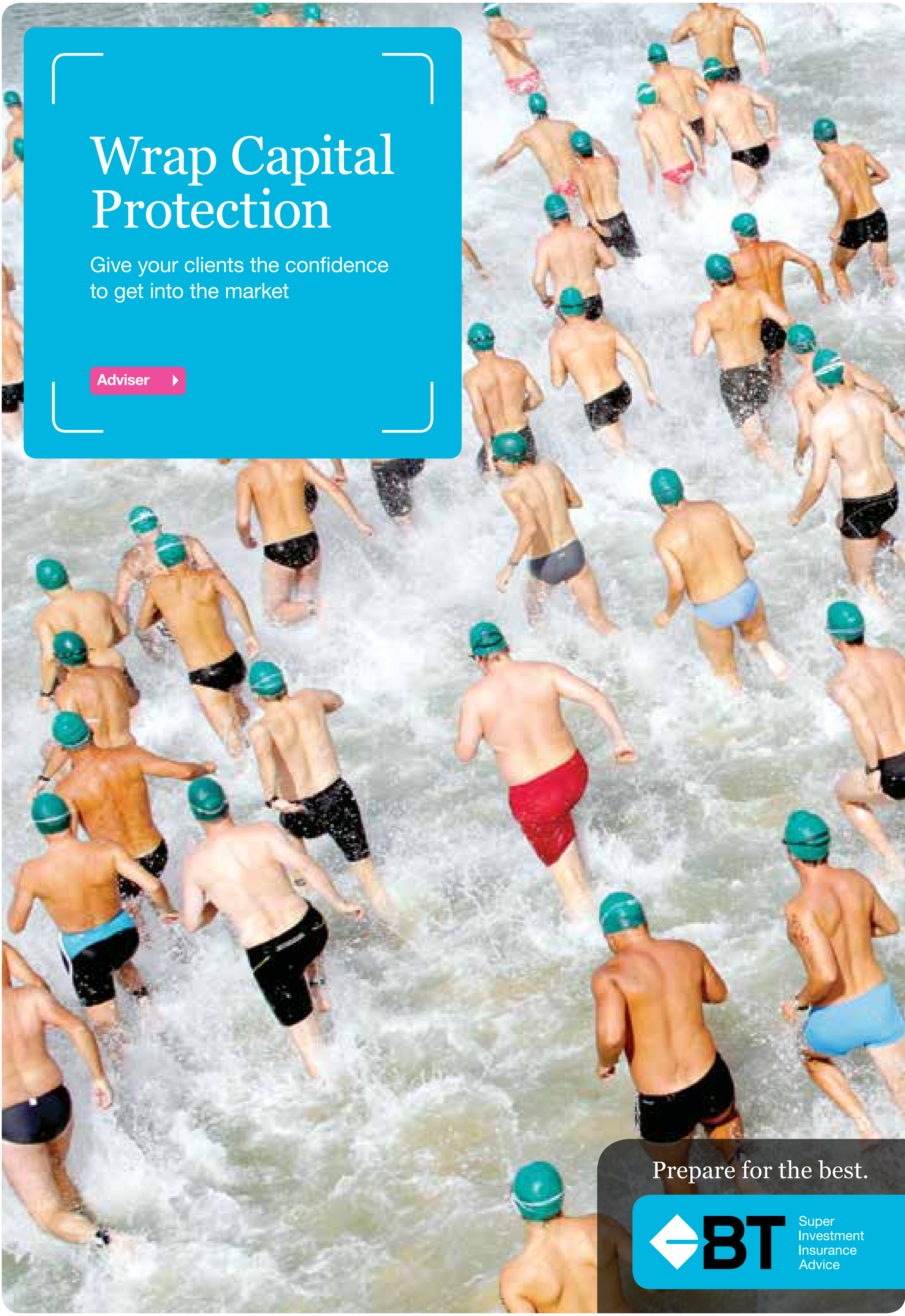
# Wrap Capital Protection

Give your clients the confidence to get into the market

Adviser



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## Contents

# Introducing Wrap Capital Protection

## A new style of capital protection

**Despite the wisdom of investing in growth assets to build long-term wealth, many investors lack the confidence to enter the market, preferring the safety of cash and term deposits. But what if there was a product that offered your clients access to growth, as well as a future minimum outcome?**

Introducing Wrap Capital Protection, a new style of capital protection designed by BT. This new investment solution is designed to balance the need many clients have for growth and protection.

What's more, it can be added to a broad range of managed funds on the Wrap Platform, simply by ticking a box. Clients can make full or partial withdrawals, make additional investments, even extend the term if they wish to. Wrap Capital Protection gives your clients control, transparency and flexibility, while providing you with more opportunities to demonstrate the value of ongoing advice. It has been built for investors who should be investing for growth but are fearful of the unknown.

## Key Features

- Gives access to growth
- Provides a minimum outcome for their investment in the future
- Available on a broad range of managed funds
- Offers flexibility to meet clients' changing needs
- Cost effective with a fee of 1.2%pa
- No additional fees to amend or cancel

# What makes it different?

## Access to growth, protection for capital

In the past, clients have had to choose between growth and protection. But with Wrap Capital Protection, now you can offer them another way to manage the risks of investing for growth.

Wrap Capital Protection offers your clients a minimum outcome, which means they will receive at least their original investment in the protected fund at the end of the term. But it also gives access to growth so that the client may receive more than the minimum outcome.

It does this by splitting their total investment between an Investment Fund and the BT Capital Protection Fund. Throughout the protection term, a client's investment is dynamically 'rebalanced' between the two funds as markets rise and fall.

Generally speaking, the allocation between the two funds will be dictated by market performance, but may also depend on other factors such as the length of time until the protection maturity date and interest rates.

As well as offering your clients both protection and access to growth, Wrap Capital Protection also delivers flexibility. Clients can tailor their protection to meet their changing financial needs, with options to:

- extend their protection term
- capture growth by increasing their minimum outcome
- make full or partial withdrawals
- make additional investments.

## What makes Wrap Capital Protection different?

We spent two years reviewing existing capital protection products and researching global best practice. We also asked advisers and investors what does and doesn't work for them. The result is BT's new capital protection product.

| OLDER CAPITAL PROTECTION PRODUCTS | NEW WRAP CAPITAL PROTECTION |
|---|---|
| ☒ Investment choice is too restrictive and can't be tailored to meet individual client needs. | ☑ A solution that can be used with a wide range of managed funds available via Wrap and SuperWrap, giving you the flexibility to tailor solutions to your clients' needs. |
| ☒ The investor is locked in for the term. | ☑ The investor is not locked in. Throughout the term they can make full or partial withdrawals, make additional investments, extend the term or turn off protection without incurring additional fees. You have the flexibility to adapt solutions to suit a client's changing circumstances and visibly demonstrate the value of ongoing advice. |
| ☒ Can't see what's happening inside the investment structure – it's a black box. | ☑ A client's position is transparently displayed at all times with account activity always visible on the Wrap DeskTop. |
| ☒ Adviser has no control. | ☑ You retain complete control with a range of investment choices and the ability to change features during the protection term. Plus you enjoy unique opportunities to demonstrate value. |
| ☒ Protection is too expensive or there are hidden costs. | ☑ The fee is 1.2%pa with no upfront or cancellation fees. |

## Who is it for?

Wrap Capital Protection has been designed to meet the needs of a range of risk-averse and at-risk clients.

| CUSTOMER TYPES | KEY CHARACTERISTICS | EXAMPLE QUOTES |
|---|---|---|
| 5-10 years before retirement | • People with a nest egg who are starting to phase into retirement<br>• Around age 55, still working full time and focused on growing super<br>• Client need is to seek growth opportunities for their portfolio and protect super for planning and decision making. | "I can't pick the market but I want to retire whenever I want." |
| 5-10 years after retirement | • People who have retired and are investing a nest egg for both the short term and long term<br>• Around age 65, still working in some capacity and highly engaged with their super<br>• Client need is to continue growth of super into the future whilst managing short- to medium-term risks. | "I can't afford to take a risk but I need to grow my retirement savings to ensure they last." |
| Risk-averse investor in cash | • People who have money sitting in cash and term deposits<br>• Any age but uncomfortable with accepting that the long term growth story is still true<br>• Client need is to return to growth investing to grow their portfolio but not without managing the downside risks. | "I want to access the benefits of the share market without the risk of catastrophe." |
| SMSF clients | • People who are managing a SMSF for themselves<br>• Typically age 45 or more and highly engaged<br>• Client need is to retain control of their investment selection without taking on all the risks associated with investing. | "I want to give my super a chance to grow with the investments I select without putting it all on the line." |

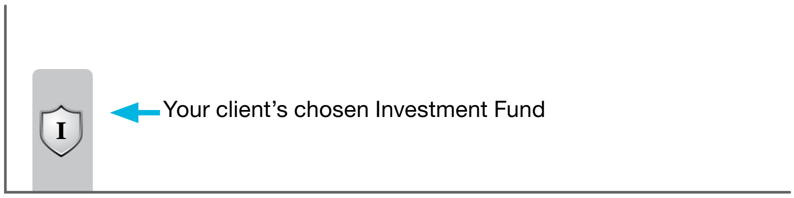
# How does it work?

**Let's take a look at how Wrap Capital Protection works when you apply it to a managed fund on the Wrap Platform. These graphs are illustrative only.**

Example:
You choose to apply protection to the whole of a client's $10,000 investment in an eligible managed fund. This can be either an existing managed fund or a new managed fund purchased with money from your client's Cash Account.

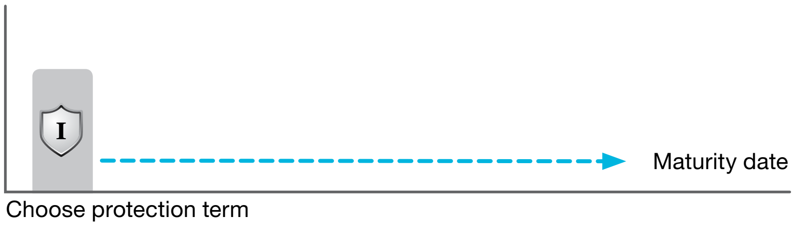
### 1. Select an Investment Fund

Choose a managed fund on the Wrap or Super Wrap Platform. There is a wide range of managed funds that are eligible for protection.




Example:
You and your client choose to protect the $10,000 investment for a term of approximately seven years.

### 2. Set the protection term

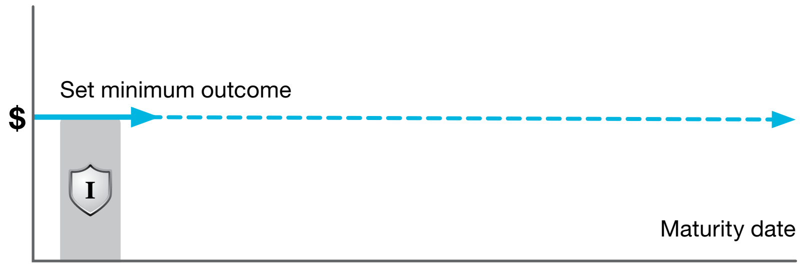



Example:
Your client's minimum outcome is set at the amount of their initial investment of $10,000. The amount invested in the BT Capital Protection Fund is based on their Investment Fund, protection term and minimum outcome.

- The allocation to the BT Capital Protection Fund can be significant for shorter terms or managed funds with category D and E. Please refer to the Initial Allocation Table on the DeskTop.

### 3. Determine the minimum outcome

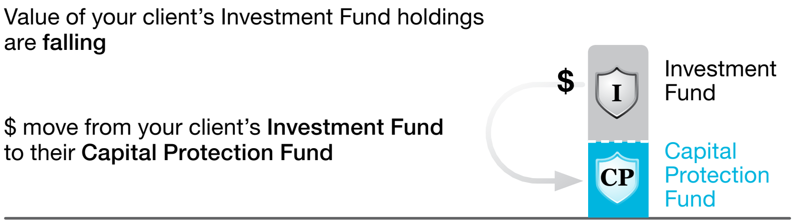
Your client's minimum outcome is established and a proportion may be invested in the BT Capital Protection Fund.




Example:
$2,000 is moved from your client's Investment Fund to the BT Capital Protection Fund.

### 4. When unit prices fall

If the unit price of your client's Investment Fund falls significantly, a rebalancing will happen moving money from your client's Investment Fund to their BT Capital Protection Fund.



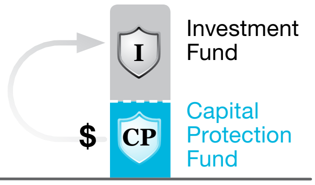
Example:
$1,000 is moved from the BT Capital Protection Fund to your client's Investment Fund.

## 5. When unit prices rise

If the unit price of your client's Investment Fund rises significantly, a rebalancing occurs, moving money from the BT Capital Protection Fund to the Investment Fund.

Value of your client's Investment Fund holdings are **rising**

$ move from your client's **Capital Protection Fund** to your client's **Investment Fund**




The Capital Protection Fund invests in high quality Fixed Interest Securities.

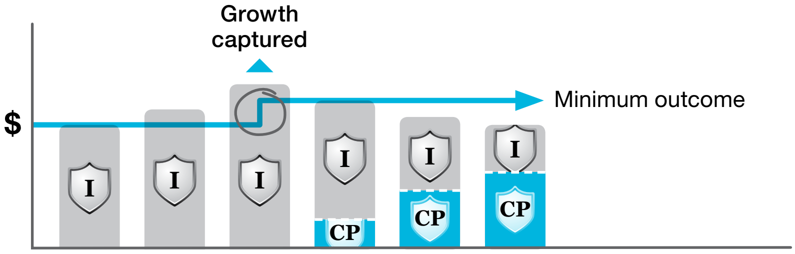
A set formula is used to determine whether any unit price movement is significant enough to trigger a rebalance.

**Please note:** Your client's combined holdings in the Investment Fund and the BT Capital Protection Fund are referred to as your client's protection portfolio. So if you have $9,000 in your client's Investment Fund and $1,000 in the BT Capital Protection Fund, the total value of your client's holdings in their protection portfolio is $10,000.

Example:
If your client's protection portfolio increases in value from $10,000 to $12,000, their minimum outcome will increase to $11,000, capturing 50% of the growth in the value of their protection portfolio.

## 6. Growth automatically captured

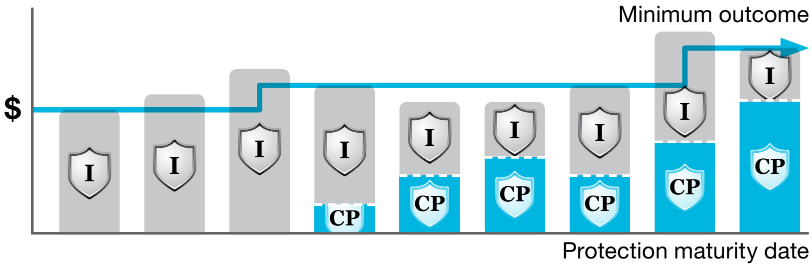
The automatic growth capture feature occurs every three months during the client's protection term and can increase their minimum outcome.




Example:
If your client's minimum outcome is $11,000 but the value of their protection portfolio is $11,500 then they will receive $11,500 on the protection maturity date.

## 7. Maturity date

Wrap Capital Protection is designed to ensure your client achieves at least the minimum outcome on their protection maturity date. However the amount they receive may be more if their Investment Fund performed well over the protection term.



# How does Wrap Capital Protection perform throughout the protection term?

**Wrap Capital Protection's performance is unique to every client. It will depend on the Investment Fund, the protection term, market performance, and other factors such as whether they make any changes during the term e.g. amending the term or making a withdrawal.**

But there are some rules of thumb that can help with client expectations.

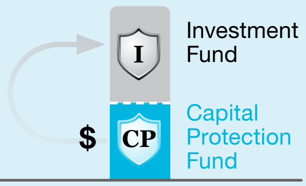
Generally, at the start of the protection term, your client can expect to experience more of the ups and downs of the market because their exposure to their Investment Fund may be higher. But at the end of the protection term, your client can expect much smoother returns because their exposure to the BT Capital Protection Fund may be higher. However at any time, if markets move significantly, Wrap Capital Protection will rebalance as required.

## If the market rises

If the unit price of the Investment Fund increases significantly,* a rebalancing will happen, moving money out of the BT Capital Protection Fund and into the Investment Fund.

Unit price of your Investment Fund is **rising**

$ move from the **Capital Protection Fund** to your **Investment Fund**




* A formula is used to determine whether any unit price movement is significant enough to trigger a rebalance.

The amount your client has in the Investment Fund determines the amount of growth they are exposed to. They benefit from the same increase in unit price as any other investor, based on their exposure to the Investment Fund.

Additionally, every three months, we automatically check whether we can increase their minimum outcome to capture 50% of any growth. Alternatively, you can advise your clients whenever you think the time is right to increase the minimum outcome to capture up to 100% of any growth using the feature on the Wrap DeskTop.

## Opportunities to engage with the client

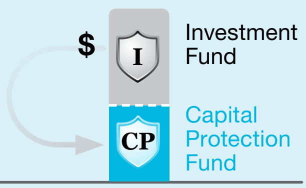
- You can capture 100% of a client's growth by manually increasing their minimum outcome. Note that this may result in an increased exposure to the BT Capital Protection Fund.
- You can give your client greater growth exposure by increasing their protection term, which will typically result in an increased exposure to their chosen Investment Fund.
- You may suggest that clients add to or withdraw from their investment at various times to suit their current needs.
- Or, if a client's circumstances change, they may want to turn off the protection altogether to invest entirely in the market.

# If the market falls

If the unit price of your Investment Fund falls significantly,* a rebalancing will happen, taking money out of your Investment Fund and placing it into the Capital Protection Fund.

Unit price of your Investment Fund is **falling**

$ move from your **Investment Fund** to the **Capital Protection Fund**




* A formula is used to determine whether any unit price movement is significant enough to trigger a rebalance.

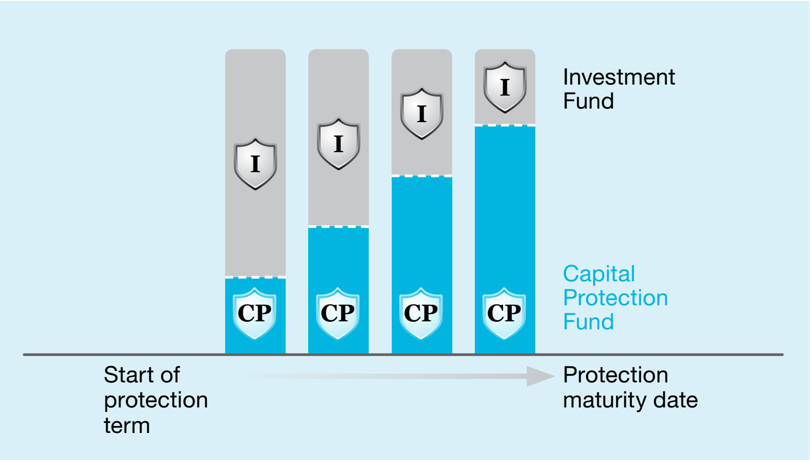
This means while your client will experience a drop in the overall value of their investment, they may receive some benefit from Wrap Capital Protection before the end of the term. What's more, even in the event of falling markets and a decrease in the value of their portfolio, your client's minimum outcome will remain the same.

If your client is fully invested in the BT Capital Protection Fund, rebalancing is unlikely to occur unless your client takes some action, such as extending the protection term.

# How does Wrap Capital Protection perform nearing maturity?

**As you near the end of the protection term, a greater proportion of the client's portfolio is typically allocated to the BT Capital Protection Fund.**

This allocation will be visible to you and your client. If you determine this level of protection is no longer needed, you have several options to increase your client's exposure to growth. These include turning the protection off altogether, or extending the protection term to reduce the portion of the portfolio allocated to the BT Capital Protection Fund.





### Opportunities to engage with the client

- If your client wants more exposure to growth they might want to extend the protection term.
- Or if their circumstances change, they might choose to turn off the protection altogether.

# Multiple layers of protection

## 1. Minimum outcome

Wrap Capital Protection provides clients with a minimum outcome at maturity. This is initially based on their original investment, but can increase over time if their investment performs well. Automatic adjustments are made each quarter or you can lock in growth manually.

If a client decides to cancel their investment before the maturity date they will receive the value of their protection portfolio. This includes the value of their Investment Fund and the BT Capital Protection Fund and can be less than the minimum outcome before the end of the term. The minimum outcome will increase for additional investments made to the protection portfolio, and decrease for withdrawals. If distributions from your client's Investment Fund are taken from your client's protection portfolio as cash, they will be treated as withdrawals and reduce the minimum outcome.

## 2. Rebalancing

The client's investment is split between their chosen Investment Fund and the BT Capital Protection Fund.


Rebalancing is carried out according to a formula. It is designed only to ensure Wrap Capital Protection delivers at least your client's minimum outcome at the end of the term, by managing your client's exposure to their Investment Fund and the BT Capital Protection Fund.

Clients may benefit from rebalancing during the term if markets fall, because the BT Capital Protection Fund provides a defensive return. However, if markets rise, clients might not receive all of the upside due to the fees and costs they pay, as well as any allocation to the BT Capital Protection Fund.

## 3. Protection payment

The BT Capital Protection Fund also provides an additional layer of protection through the protection contract the fund holds with Deutsche Bank.

Under the protection contract, where it is not possible to rebalance your client's investment between the Investment Fund and the BT Capital Protection Fund in a timely manner (for example when the unit price drops significantly in one day), a protection payment may be required to be paid to your client to ensure the minimum outcome can be achieved at the end of the term. Please note your clients do not have a direct relationship with Deutsche Bank.

# Easy admin and reporting

**Wrap Capital Protection has been fully integrated with the Wrap Desktop to make it easy for you to use. You simply tick a box to apply protection and then set the protection term.**

We've also introduced new Capital Protection DeskTop reports. All details and transactions relating to your clients' protected investments are incorporated into Wrap statements. This gives you full visibility of their position at all times.

Additionally, every three months their minimum outcome may be adjusted to capture growth. Or alternatively you can add value by increasing the minimum outcome on an ad hoc basis via the Wrap DeskTop.

## Reporting options

To make it easy to keep track of Wrap Capital Protection, the following report options are available.

- *Client Summary View:* A summary of all your client's capital protected holdings
- *Client Detailed View:* More detailed information on a per investment basis
- *Activity Summary:* A list of all transactions and activity relating to Wrap Capital Protection
- *Business View:* A summary of all your client's capital protection information

We have also integrated Wrap Capital Protection into the following reports.

- *Portfolio Valuation and Portfolio Position Report:* A new shield icon will be displayed to indicate Wrap Capital Protection. This icon will also be used for other reports.
- *Order Status:* You will be able to track your Wrap Capital Protection requests via the existing Order Status screen. We have introduced a new expandable grouping feature to make it easier for you to track managed fund orders that relate to Wrap Capital Protection.
- *Transaction History:* We have introduced new 'rebalance' transaction types to indicate rebalance trades that are a feature of Wrap Capital Protection.

## Client statements

In the interests of full transparency, your clients will have access to clear, up-to-date information on their Wrap Capital Protection investments, including:

- 24/7 access to their current investment value via the Wrap DeskTop.
- Breakdowns of the current value of their holdings between the Investment Fund and the BT Capital Protection Fund.
- Visibility of rebalancing between the two funds, with all trades showing on their transaction report.
- New Wrap Capital Protection section on Quarterly and Annual Statements.

# Other things you should know

## 1. Cost of protection

The explicit fee for capital protection is 1.2% per annum with no upfront or cancellation fees. However, when markets perform well, there may also be an implicit cost of being protected, as clients' funds will be partially invested in the BT Capital Protection Fund, which may not experience the same growth.

## 2. Protection terms

Because a greater proportion of a client's investment is allocated to the BT Capital Protection Fund as they near the end of their protection term, there could be a negative impact on growth, particularly if markets rise. However, this allocation will be visible to both you and your client and can be adjusted through turning off protection or by extending the protection term. This is a good opportunity for you to offer advice to your client.

## 3. Risk exposure

When your clients invest in the BT Capital Protection Fund, they will be exposed to some risks. While every effort has been taken to mitigate risks, you should be aware of:

- Credit risk to underlying issuers of fixed interest securities and to Deutsche Bank. These counterparties have been selected to perform their specific roles based on our assessment of their capabilities and strength.
- Transaction execution risk if there is a delay or failure in placing or processing transactions, for example if there is insufficient cash in the working cash account to complete a rebalancing trade, the trade might be considered a partial withdrawal from protection. The easiest way to avoid this risk is to ensure there is sufficient cash in your client's working cash account.

**Ongoing training and support**

- Training modules, marketing materials, scenario tools and a Product Disclosure Statement are available to help you use Wrap Capital Protection. Please contact your BT Business Development Manager for more information.

## Notes

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## What to do next

Call

Your Wrap Business Development Manager



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