Playing Now's Film Financing Galvanized Structures – Fall 2017

- An innovative alternative to traditional film financing offering diversification, principal protection, and the potential for an enhanced rate of return.

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INTRODUCTION

- While investing in feature films offers the potential for unlimited rewards, as with all investments there are also many potential risks.

- While astute film producers may be able to mitigate many of these risks, some may be unpredictable or out of the producer's control.

- Therefore it makes sense to diversify the return profile by hedging the remaining risks using our innovative structured notes film financing concept.

- **By utilizing this platform, we have in effect purchased insurance which potentially will make investors whole in the unlikely event that the film is unsuccessful.**

- **Additionally this innovative concept has the potential to dramatically enhance the overall return of the entire project while always protecting the investor's original investment.**

- This unique approach is currently being used by major studios in a response to the lower margins the film industry has been seeing and is explained in detail on page 4, but first here is a brief tutorial on structured notes.

STRUCTURED NOTES

- Structured notes are debt securities which are issued by investment banks and are designed to offer the potential for enhanced returns while still protecting principal.

- This is accomplished by taking a zero-coupon bond and combining it with a call option on an underlying equity instrument such as an Index.

- <u>Structured notes have two underlying pieces:</u>

  - The bond component uses up the majority of the capital and provides the principal protection.
  - The rest of the investment is used to purchase the call option and provides the upside potential.

- An example of a popular structured note is a seven year bond coupled with a call option on the S&P 500 Index. This product offers the investor 75% of the upside on the S&P 500 over the next seven years while still protecting this investor against loss of principal.

- The Playing Now Team of Arete Wealth Management specializes in structured products with over $250,000,000 of notional placed with Bank of the West, Barclays, Goldman Sachs, HSBC, JPMorgan Chase, and Morgan Stanley since 2010.

- **Our structured notes are issued by highly-rated investment banks, and are principal protected when held to maturity based on the financial strength of the issuer.**

STRUCTURED FILM FINANCING CONCEPT

Example:

- Playing Now is making films with a $49,400,000 budget
- We invest $100,100,000 into structured notes
- We borrow against the notes at a low fixed interest rate to produce the films and service the loan
- Non-recourse loan which can be paid back at any-time with no pre-payment penalty

Rationale:

- **If the notes perform as they have historically the film can lose money and the investors will still see a profit**
- Detailed examples can be found on pages 7, 8, 9

Morgan Stanley

Goldman Sachs

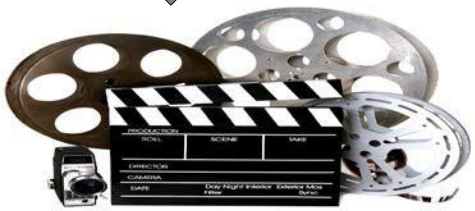
JPMorganChase

Fixed Loan Interest
(3.0% annually)

7 Year Structured Note

Enhanced Index Gains

Historical Returns 137%



3x Index Returns Paid at Maturity (Historically 137%)

1. **Notes are 100% Principal Protected**
2. **Notes Pay Enhanced Index Return @ Maturity**
3. **Low Interest Rate Loan (Fixed at 3%)**
4. **Simple Underwriting**
5. **Loan Proceeds used to Finance Film & Interest**

MULTI-ASSET INDEX LINKED NOTES

- While structured notes linked to indices such as the S&P500 have been extremely popular for many years, multi-asset indices are now starting to see the lion's share of new investment dollars due to their lower volatility and smoother returns:
  - On a previous page we highlighted a seven year note which pays 75% of the S&P500 return at maturity
  - By using a low volatility index we will receive 300% of the index return at maturity (3x)
- One of our most popular products is a seven-year structured note linked to a multi-asset low volatility index which offers 3x the index return at maturity:
  - **These notes have returned on average 137% over the 7 year term**
  - **This product is highlighted in detail on the following page**

The notes are not bank deposits and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency. This proposal is for discussion purposes only and is not an offer to buy or sell securities. Prior to purchasing structured notes, investors must thoroughly review all product disclosures and supplements.

MULTI-ASSET INDEX LINKED NOTES

Multi-Asset Index-Linked Notes

- Principal is protected by the issuing investment bank
- The seven-year notes currently offer 3x the index return at maturity (300%)
- The Index invests in Exchange Traded Funds (ETFs) which are linked to stocks, bonds, real-estate, emerging markets, commodities and cash
- **The index the notes are linked to is up 6.81% in 2017 (with 3x gearing this = 20.43% over 9 months)**

Historical Returns for the 7 Year Notes *

- Highest Return = 164% (Investor purchased the notes on the "best" day since August 2008)
- **Average Return = 137%**
- Lowest Return = 116% (Investor purchased the notes on the "worst" day since August 2008)

** The issuing entity performed the historical back-test on the Notes by assuming a similar product was purchased every day the market has been open since August 2008 (Inception date of the Index). Past performance of index/notes is not a prediction or guarantee of future results.*

Hypothetical #1 – Historical Best Note Return*

In this hypothetical we make the following assumptions:

- $100,100,000 invested into 7 year structured notes with 3x index return paid at maturity
- $62,531,646 borrowed against the notes to produce the film ($49,400,000) and service the loan ($13,131,646)
- **At maturity the notes return principal plus 164% which is the historical best note return**

Scenario 1: Assumes the film only recoups 50% of production costs:

- The investors will receive $213,340,809 cash back at maturity
- **In this negative film scenario the investors still walk away with $113,240,809 gain**

Scenario 2: Assumes the film merely recoups its production costs:

- The investors will receive $233,100,809 cash back at maturity
- **In this break-even film scenario the investors still walk away with $133,000,809 gain**

Scenario 3: Assumes the film is a success (returns 3x production costs):

- The investors will receive $312,140,809 cash back at maturity
- **In this positive film scenario the investors walk away with $212,040,809 gain**

$100,100,000 Deposited into Seven Year Principal Protected Notes				
Note	**Film**	**Investor Return**		
Return	**Return**	**Combined IRR**	**ROI**	**Profit/Loss**
Principal + 164%	50% of Budget	14.6%	113.1%	**$113,240,809**
Principal + 164%	100% of Budget	17.4%	132.9%	**$133,000,809**
Principal + 164%	300% of Budget	29.5%	211.8%	**$212,040,809**

Hypothetical #2 – Historical Average Note Return*

In this hypothetical we make the following assumptions:

- $100,100,000 invested into 7 year structured notes with 3x index return paid at maturity
- $62,531,646 borrowed against the notes to produce the film ($49,400,000) and service the loan ($13,131,646)
- **At maturity the notes return principal plus 137% which is the historical average note return**

Scenario 1: Assumes the film only recoups 50% of production costs:

- The investors will receive $186,313,809 cash back at maturity
- **In this negative film scenario the investors still walk away with $86,213,809 gain**

Scenario 2: Assumes the film merely recoups its production costs:

- The investors will receive $206,073,809 cash back at maturity
- **In this break-even film scenario the investors still walk away with $105,973,809 gain**

Scenario 3: Assumes the film is a success (returns 3x production costs):

- The investors will receive $285,113,809 cash back at maturity
- **In this positive film scenario the investors walk away with $185,013,809 gain**

$100,100,000 Deposited into Seven Year Principal Protected Notes				
Note	**Film**	**Investor Return**		
Return	**Return**	**Combined IRR**	**ROI**	**Profit/Loss**
Principal + 137%	50% of Budget	12.3%	86.1%	**$186,313,809**
Principal + 137%	100% of Budget	15.2%	105.9%	**$206,073,809**
Principal + 137%	300% of Budget	27.9%	184.8%	**$285,113,809**

Hypothetical #3 – Historical Lowest Note Return*

In this hypothetical we make the following assumptions:

- $100,100,000 invested into 7 year structured notes with 3x index return paid at maturity
- $62,531,646 borrowed against the notes to produce the film ($49,400,000) and service the loan ($13,131,646)
- **At maturity the notes return principal plus 116% which is the historical worst note return**

Scenario 1: Assumes the Film only recoups 50% of production costs:

- The investors will receive $$165,292,809 cash back at maturity
- **In this negative film scenario the investors still walk away with $65,192,809 gain**

Scenario 2: Assumes the Film merely recoups its production costs:

- The investors will receive $185,052,809 cash back at maturity
- **In this break-even film scenario the investors still walk away with $84,952,809 gain**

Scenario 3: Assumes the Film is a success (returns 3x production costs):

- The investors will receive $264,092,809 cash back at maturity
- **In this positive film scenario the investors walk away with $163,992,809 gain**

$100,100,000 Deposited into Seven Year Principal Protected Notes				
Note	**Film**	**Investor Return**		
Return	**Return**	**Combined IRR**	**ROI**	**Profit/Loss**
Principal + 116%	50% of Budget	10.4%	65.1%	**$65,192,809**
Principal + 116%	100% of Budget	13.4%	84.9%	**$84,952,809**
Principal + 116%	300% of Budget	26.6%	163.8%	**$163,992,809**

- **This is a lot of information so I have summarized below the indices with track records of 10 years or more**
- **The indices are in order of longest track record, with the longest track record at the top**

1. Index:
   - Year to Date = **3.25%**
   - Average return since January 1, 2003 = **5.97% per annum**
   - with 3x participation at maturity = **17.91% per annum**
   - Number of years with negative returns = **0 out of 14**

2. Index:
   - Year to Date = **7.80%**
   - Average return since January 1, 2004 = **5.55 per annum**
   - with 3x participation at maturity = **16.65% per annum**
   - Number of years with negative returns = **1 out of 13 (-4.08% in 2015)**

3. Index:
   - Year to Date = **5.76%**
   - Average return since January 3, 2006 = **4.90% per annum**
   - with 3x participation at maturity = **14.70% per annum**
   - Number of years with negative returns = **0 out of 12**

4. Index:
   - Year to Date = **5.75%**
   - Average return since November 1, 2007 = **5.09% per annum**
   - with 3x participation at maturity = **15.27% per annum**
   - Number of years with negative returns = **1 out of 11 (-7.07% in 2015)**

5. Index
   - Year to Date = **7.44%**
   - Average return since August 1, 2008 = **5.20% per annum**
   - with 3x participation at maturity = **15.60% per annum**
   - Number of years with negative returns = **1 out of 10 (-2.93% in 2015)**

Please note that once we pick an index and term, We will have a back test performed which is much more accurate and usually results in a higher return as the returns here are based on calendar year and not rolling returns.

SUMMARY

BENEFITS

- Structured notes are 100% principal protected when held to maturity regardless of index performance
- The notes historically have offered investors above market returns
- **Under a scenario where the film does not generate a profit, the interest paid on the notes can mitigate losses and even generate a profit for the investors**
- The loan can be paid back at anytime with no prepayment penalty
- Maximum 3% Fixed Rate on the loan

RISKS

- Credit Risk: The issuer goes out of business (The Playing Now Team only uses highly rated issuers)
- Performance Risk: The notes return principal but bear no interest (Historically this has never occurred but it is possible if the index ending point is below the initial level)

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