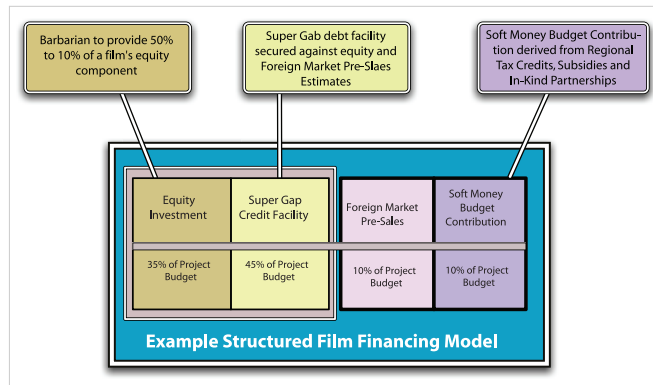


FILM FINANCING



Fund's investment methodology
Source: Barbarian Films LLC

BARBARIAN - STRUCTURED FILM INVESTMENT FUND

- Focus:**
- The Fund concentrates on films budgeted at less than USD10 mn (this investment level seems to be a niche with sufficient funding to attract high calibre talent and material that is internationally bankable; track record of such films have repeatedly proven that they can recoup their entire budget from foreign sales alone)
 - Fund acts as equity and debt investor on film projects. Projects must have more than 75% of their budget in foreign market sales estimates prior to capital deployment. Film investments are structured to include equity, debt and bank financing, regional tax credits and rebates and foreign market pre-sales.
 - This financial structure spans across multiple film investments and is expected to produce targeted annualised returns of 30% over the tenure of the fund
 - The Fund does not provide funding for the distribution or promotion of any film product

- Strengths:**
- Relationships with film producers, favourable investment terms, shorter recoupment time table
 - The fund's managers and associated producers have generated over USD2bn from combined box office returns

- Weaknesses:**
- Better suited to long term investors

- Fee structure:

2% Management Fee / 10% hurdle rate whereby the manager shall not receive any performance-based compensation on the first 10% of profits earned by the fund. For profit in excess of 10% (up to 30%) 80% to Members, 20% to Manager. For profit in excess of 30%, Members and Manager shall share equally.

- Opportunities:**
- Studios and independent distributors have received significant capital from institutional investors, which they must use to acquire products. This increased level of liquidity has led to greater sums being paid for high quality independently produced film product.

- The recent buying frenzies at the Toronto and Sundance festivals testifies to the increased level of demand
- The acquisition and licensing fees paid have escalated proportionally, with films fetching fees greater than 70% of the films' budget for the North American market rights alone

- Threats:**
- The motion picture industry is evolving rapidly, and recent trends have shown that audience response to both traditional and emerging distribution channels is volatile and difficult to predict
 - Changing audience demands, technological change or the availability of alternative forms of entertainment could impact borrowers or the motion picture industry
 - Competition: there is no assurance that existing lenders or other third parties will not offer products and services on more favourable terms

Risk Management

Low Low / Moderate Moderate Moderate to High High

- Major risk at fund level: In case the fund parts ways with a particular producer or production company (which could potentially happen) the fund would supplement its deal flow by adding additional producer/production company relationships □□□□□
- Ability to identify independent producers (high quality, low budget films with internationally recognisable casts): □□□□□
- Fund's criteria: genre, budget, cast, creators and foreign sales estimates and commitments: Associated risk: □□□□□
- Deal flow: (Barbarian has established partnerships with best-in-breed independent producers as well as a strategic relationship with the Endeavor agency that provides Barbarian with a unique deal flow ensuring access to high quality bankable projects) □□□□□
- Efficiency in placing investor capital to work: (ie matching investor funds with investment opportunities): □□□□□
- Due diligence skills: □□□□□
- Legal expertise: □□□□□
- Ability to secure deals with the above at favourable conditions (structuring capabilities): □□□□□
- Ability to ensure that each project will be completed on budget and delivered to foreign buyers: □□□□□


- Secure return on capital: □□□□□
(Barbarian generally requires completion bond insurance for each film investment. Additionally, Barbarian only works with seasoned independent film producers who have produced films in this budget range in the past.)
- Probability of diluted returns owing to piracy of motion pictures, including digital and Internet piracy: □□□□□
(Barbarian side steps this pitfall by selling and / or licensing its projects to studios and independent distributors). It should be noted that over time illegal piracy could effect the overall health of the industry which would have an impact on Barbarian.
- Intellectual property infringement related risk: □□□□□
- Liquidity risk: □□□□□
(The fund was built with an 18-month major return for each investment. This is a generous assumption given that most investments will begin recoupment within six months and fully recoup within twelve months, however there is a risk that the major return could take longer.)
- Currency risk: none, all transactions executed in USD
- Leverage: 2 to 1
- Key man risk: □□□□□

FILM FINANCING

BARBARIAN - STRUCTURED FILM INVESTMENT FUND

Performance Parameters

 Low
  Low / Moderate
  Moderate
  Moderate to High
  High

- Avg. no of investments: 10 -15 per year
- Diversification achieved:
 - By types of allocation: deploys capital across multiple project types, budget sizes, genres and production companies
 - Invests as: equity, bridge and debt participant
 - Capital amount invested: ranges from USD500,000 to USD:6+ mn per transaction
 - Tenure: 18 months to 5 years
- Ability to maintain and build relationships with independent producers: The fund's managers have long term relationships with the participating producers as well as industry contacts that have allowed the fund to receive products from best-in-breed film producers. 
- Impact of cyclical nature of the film business: A long-term downturn in the film industry could have a negative effect on the amounts paid for films
- Fund would outperform when: Individual film projects attract significant attention because of breakout performance or overall product execution and when consumer reaction to a film project is significantly high and produces returns in excess of the market license fee paid by a studio or independent distributor for the film. This would create additional returns to the fund causing it to outperform its original estimates.
- Fund would underperform when: The international market for film acquisitions takes a significant downturn and premiums for independently produced films sink

Outlook

- Barriers to entry: limited
- Threat posed by competition: Other funds will develop around this specific asset class which will make attractive deals that meet the fund's requirements harder to develop.
- Scope for funds that investment with independent film producers: There are few funds specifically targeted at independent producers : upside to range bound
- Scope for a fund such as Barbarian: upside to range bound potential
- Probability of the fund delivering its targeted annualised returns:
 - 1 year 75%
 - 3 years 85%
 - End of fund's tenure: 95%

Investment

- Fund is targeted at: sophisticated investors
- Current AuM: USD25mn
- Targeted AuM: USD50mn(equity) USD100mn (debt)
- Geographic restrictions: none
- In order to optimise returns recommended holding period: 5 years
- Fund's base currency: USD
- Fund's complexity for an investor: Low. Investors are given sufficient information to understand the fund's strategy and the anatomy of its transactions.
- Transparency provided to investors: moderate