

Summary

Liontamer is applying its particular brand of growth with capital protection to an Asian markets product. For the group's target market of retail investors, this type of structure has much to commend it. Asian sharemarkets, particularly China, have shot the lights out in recent times, but have also shown a propensity to correct quite sharply. The Liontamer Tiger fund addresses this problem by diversifying across six key markets while providing full capital protection if the investment is held to term. There is an early maturity feature in the event of exceptional returns.

The objective of the fund is to deliver 100% of the growth in the underlying investments, together with a full return of capital at maturity. The mechanics are that, in order to provide the capital protection, Liontamer buys fully protected structured notes issued by Barclays Bank. The returns on units of the Tiger fund mirror those on the notes which are ranked equally with all notes issued by Barclays. The growth element, called the Index Linked Return, is based on the performance of Liontamer's Tiger Index, a basket of six Asian sharemarket indices in China, India, Singapore, Taiwan, Korea and Japan. Liontamer views China and India as the main engines of growth in Asia over the next five years (see background, over the page), so the basket is weighted in favour of these two, at a rate of 25% each, with a 12.5% equal weighting for the other four markets. As with other Liontamer products, there is a 'kick-out' facility, triggered if the pre-set growth target is met within the first three years of the five year term. The Net Asset Value will have to exceed \$1.50 per unit in the first three years for the kick-out to be triggered (which would be an exceptional occurrence) at which point investors will receive 150% of their original investment. An exit fee of 3% applies to repurchases but not redemptions. No exit fee is charged if the fund runs to term. This type of product is designed to be held to maturity. If investors redeem before maturity, there are charges of up to three per cent. The question likely to be asked is 'where does this fund fit in with my clients' overall portfolio?' The capital protection provides a degree of comfort, but investors need to be aware that the Asian markets are likely to go through a low or even negative growth phase at some time in the next five years. It is hoped that overall, the basket will produce a positive return over the term and it may even cause the early maturity feature to be brought into play, but there are no guarantees. Advisers and their clients need to weigh these factors and be comfortable tying up their investment ~~up~~. Overall, the concept has a great deal of logic to it, giving retail investors the sort of diversification they would not ordinarily be able to access.

At-A-Glance Guide

Investment profile:	Growth
Securities held:	Structured notes issued by Barclays Bank PLC
Benchmark:	Performance linked to a basket of six Asian sharemarkets
Term:	5 years*
Capital Protection:	100% of the principal**
Base currency:	NZ Dollar
Minimum Investment:	\$5,000
Entry Fees:	3% (rebateable in full or part)
Management Fees:	None levied by Liontamer
Other charges:	2% brokerage fee 3% early maturity fee applies to repurchases (but not redemptions) Early redemption fees apply
Fund Status:	Closed-ended
Domicile/Structure:	Australian Unit Trust
Custodian:	NZ Guardian Trust Company
Supervisory authority:	NZ Permanent Trustees
* or earlier if growth target is met in years 1-3	
** subject to the investment being held to term (or early maturity)	

Advantages of the fund:

Security of invested capital, protection provided via notes issued by Barclays Bank, rated AA by Standard & Poor's
Offers diversification for investors seeking global exposure
Low entry level allows unsophisticated investors access to a relatively high risk investment region

Disadvantages

Asian markets are volatile, while some are highly cyclical, so growth prospects for the Tiger Index over the term are uncertain. We should also not forget that China is still a communist country

There are penalties for early redemption and there is no capital protection on early redemptions, unless there is enough growth to trigger early release

Risks:

The NZ Government may alter the taxation of offshore equity investments. However, all other offshore funds would be caught by the same rules

Investors are exposed to Barclays' credit risk for the repayment of their principal and returns. However, Barclays has a strong credit rating (AA by Standard & Poor's) which is similar to that of any major trading bank in New Zealand

Asian Markets Investment – product background

We hear so much about China nowadays, but however much we learn, the numbers produced by economists and market pundits are still mind boggling. The Asian growth story is one that investors have been sold many times in recent years, and not always with glorious results. Anyone who bought into the great China boom story in the early 1990s will probably have been taught a hard lesson in market hype. It is one of the frustrating aspects of investing in this region. The growth is there but it is often difficult to make money consistently. Unless one can take a long term view, Asian markets do not, on the whole, lend themselves to a buy and hold strategy. They are either cyclical, tied to the fortunes of global demand, or they are, like Japan, in a sort of stuttering recovery phase. The exceptions are China and India, countries destined to play a more dominant role in the global economy of the 21st century. Both countries are growing from a low base and, while they are bound to experience periods of overheating and faltering sharemarkets, their course is unquestionably upward. China is not just building infrastructure and manufacturing for its own market. China's companies will mature rapidly along with the Chinese economy and will ultimately venture beyond their own borders. A recent report on China by US fund manager Bernstein commented on the fixation that most people have with the billion-strong Chinese market: "few investors have considered the corollary of Chinese growth: China will produce world-class companies, these firms will build their own brands and they will challenge incumbents in China and around the world." India has the same challenges as China, though with the benefit of a democratic political system and the English language, a major factor in India's IT boom. Both countries have huge problems to overcome in balancing economic development with the needs of the broad populace. But from an investor's point of view, the influence of China and India is being felt not just around the Asian region but globally. Which is why Liontamer's protected capital approach to investing is ideally suited to an Asia-focused product. You are protected from the worst of the possible scenarios (another Asian crisis) and you are encouraged to take a five year view. While timing is always important in investing, and there is a risk that this product may mature at a bad time for the Asian markets, few would dare to suggest that in five years time China and India-related shares will be not be appreciably higher than they are today. Combining other dynamic markets such as Japan, Korea, Taiwan and Singapore, is an exciting prospect for investors keen to access this region.

Fund Manager Profile – Liontamer Protected Investments

Liontamer is a Sydney based fund company. The products are structured as Australian unit trusts, so that investors do not suffer due to the automatic taxation of NZ unit trusts. However, for the purposes of product marketing and distribution, Liontamer is a New Zealand-based company. Its key personnel are based in New Zealand, including two individuals who have extensive experience in the field of structured products. The first is Laetitia Peterson, a Belgian investment banker, fluent in 4 languages, with an MBA from Chicago and experience gained with Goldman Sachs in the US and UK. She has been involved in the development of structured retail products in Europe. Before establishing Liontamer in 2003, she was responsible for developing the BNZ's successful capital protected product series.

The second key person at Liontamer is Janine Starks, a New Zealander who, while working in the UK for a leading adviser firm, Chase de Vere, became an expert in the structured products market. She has been actively involved in the development of many of the UK's new innovative capital protected products. As such, Liontamer is uniquely qualified to be creating these products. The products themselves carry the stamp of quality provided by the involvement of highly-rated names such as Barclays Bank, Deutsche Bank, Morgan Stanley, NZ Permanent Trustees, and NZ Guardian Trust.

About Global Fund Services

GFS is an investment consultancy based in Auckland. Its managing director is Richard Newell, a former director of the UK fund research house and fund of funds manager, Forsyth Partners. Since moving to New Zealand with his family in 2000, Richard has worked as a consultant within the financial services industry, both in New Zealand and offshore. As such, he retains contact with senior personnel and specialist fund managers at many of the leading international asset management groups. GFS provides advisers with the means to identify and access top quality investment funds. Through on-going monitoring work, you can remain fully apprised of specific fund manager strategies. You can access GFS factsheets on the Liontamer funds at: www.richardnewell.com

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