Global Fund Services Ltd.

an investment consultancy

FUND ANALYSIS

LIONTAMER COMBI Series 3

Commodities Basket Index Trust

Summary

Protected capital funds specialist Liontamer is introducing a new version of its commodities product during October 2006. While the company is no less bullish about the asset class, this new fund reflects the changed environment for commodities and has a broader scope, including soft commodities. The product also features a look-back facility that allows the managers to exclude the worst performing assets from the portfolio basket. Previous issues have proved to be very successful and this new series is also designed to appeal to existing investors who wish to lock in their gains while continuing with their exposure to commodities, for a small fee. There is no management fee but there are penalties for early redemption.

Being a small independent fund manager has certain advantages. In Liontamer's case, it allows them to respond promptly to new market opportunities and to create innovative ideas that develop on their core business. The key innovation of this latest product is ability of the managers to invest with hindsight.

While the objective of COMBI 3 is to provide growth linked to a commodities index, the Liontamer Rainbow Index, there are two choices of unit, dependent on the level of capital protection chosen. 'Tracker' unitholders will get 100% of the rise in the index after a five year term. They are also protected by the certainty of getting at least 100% of their money back at maturity. 'Booster' unit investors will get 130% of the index growth after four years, with 90% capital protection.
The composition of the commodities index has changed from previous issues. On this occasion, the index includes oil, aluminium, copper and nickel as before, with the addition of soft commodities represented by the Goldman Sachs Agriculture Index. The constituent commodities of the GSAG are wheat, corn, soybeans, Kansas wheat, cotton, sugar, coffee and cocoa.

Market conditions have changed significantly since the first COMBI fund issues in 2004. With oil and other commodities showing more volatility, Liontamer has devised a structure that allows them to take advantage of a bullish long term outlook, while adding a degree of protection on the downside. The solution they have come up with, the so-called 'perfect hindsight' concept, addresses these issues. It effectively allows Liontamer to zero weight the worst performing element of the index and under-weight the second poorest performer. This can be done retrospectively, a luxury many active fund managers would love to have. The final weighting of the portfolio will give a 30% weighting to the first, second and third best performing index constituents, a 10% weighting to the fourth and a zero weighting to the fifth.

The success of the previous COMBI products has prompted Liontamer to consider that some existing investors would like to lock in their gains from COMBI 1 (which has doubled in value) and roll into the new fund. For anyone happy to continue with their exposure to commodities, this is an ideal option. By paying an exit fee of 2% on their existing holding, investors are able to roll their gains into the new commodities fund.

At-A-Glance Guide

Investment profile:	Defensive Growth
Investment strategy:	Passive, commodities index
Securities held:	Structured notes issued by Barclays Bank PLC
Benchmark:	Performance directly linked to the Liontamer Rainbow Index
Term:	4-5 years†
Growth options	<u>Booster Units</u> - 130% of the Index*, 90% protection, 4 yrs <u>Tracker Units</u> - 100% of the Index*, 100% protection, 5 yrs
Fixed Return:	0.05% p.a. paid 30 June*
Base currency:	NZ Dollar
Minimum Investment:	$5,000
Entry Fees:	3% (rebatable in full or part)
Management Fees:	None
Other charges:	Built-in brokerage fee 2%
Fund Status:	Closed-ended
Domicile/Structure:	Australian Unit Trust
Custodian:	NZ Guardian Trust Company
Supervisory authority:	NZ Permanent Trustees

† Term can be shortened or extended by six months. It will be fixed on or before the initial strike date

*Subject to the investment held to term

Advantages of the fund:
Security of invested capital (options of 100% or 90% protection)
Provides diversification from bonds and equities
Good return prospects based on global demand
Choice of unit caters for different risk tolerance

Disadvantages
Capital is tied up for four to five years.
There are penalties for early redemption and there is no capital protection on early redemptions.

Risks:
For booster unit holders, there is a 90% return of capital, plus the growth in the index. Therefore, the index must grow 7.7% over the term for a full return of capital (7.7% x 1.3 booster recovers the 10% of capital). For taking this risk, investors earn boosted growth.
While the consensus is for a continuation of the bull market in commodities and Liontamer has structured the product to reduce risk, markets are likely to be more volatile over the term of this product.
The taxation of offshore equity investments is the subject of on-going review by the NZ Government, which may adversely affect the treatment of gains.

The Outlook for Commodities – Why there is still growth in this market

It is generally accepted that an investment in commodities is an effective way to diversify an investment portfolio; to hedge macroeconomic risk, decrease portfolio volatility and enhance returns. Commodities have historically yielded high, equity-like returns and the underlying investments correlate negatively with both bonds and equities. This implies that the volatility of a portfolio can be significantly decreased even by allocating only a small percentage of the portfolio to commodities. Another thing to consider when comparing commodities with equities is that share performance is driven by how investors value the future cash flow of the corresponding company. Therefore, the equity value of a commodity producer is mainly influenced by investors' long-term expectations regarding commodity prices and the discount rate. A commodity, on the other hand, is a spot asset. Its performance is driven by the near-term outlook for supply and demand. Liontamer clearly remains bullish about the commodities growth story. But the market conditions are different in late 2006 from what they were in 2004, when the price of oil was much lower than it is now. The question remains, if commodities have already had a good bull run over the last few years, are there sound fundamental reasons why they should continue to perform? The considerable amount of research produced by the global investment banks and other analysts suggests quite firmly that there is a positive tactical outlook for another 5 to 10 years. A significant lack of investment in commodity infrastructure has resulted in severe capacity constraints across commodity sectors. Goldman Sachs expects commodity investment returns to remain above historic averages for as long as there is a lack of ability to supply, deliver and store commodities. Key themes within the asset class include the agricultural commodity markets, supported by Chinese demand levels and bio-fuel production. The growing demand for ethanol production is having an increasing influence on both sugar and corn prices. The amount of Brazil's cane crop diverted towards ethanol is seen as a crucial element for future price action on sugar. And the growing wealth of the emerging markets is driving demand for other food staples. According to Barclays Capital, "The fundamentals of the main commodities markets remain in fairly rude health. Oil prices remain well supported, and we expect them to continue to track upwards while moving through exaggerated short-term cycles. The balances for base metals, and particularly copper, nickel and zinc, remain extremely tight and supportive of higher prices. For instance, chronically low inventories of copper mean that the marginal price required to access the remaining inventory has become high as a matter of necessity."

Fund Manager Profile – Liontamer Protected Investments

Liontamer is a Sydney based fund company. The products are structured as Australian 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 was heavily involved in structured products development for the UK adviser firm Chase de Vere. Liontamer's principals are therefore well qualified to be creating these products. The products themselves, with the involvement of names such as Barclays Bank, UBS, Deutsche Bank, Morgan Stanley, NZ Permanent Trustees, and NZ Guardian Trust are effectively endorsed by many of the established global investment companies.

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 appraised of specific fund manager strategies. You can access GFS factsheets on the Liontamer funds at: www.richardnewell.com

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