

**Summary**

This latest fund from Liontamer, available during August, September and October 2007, is the first product launch to benefit from the new ownership structure that has seen Belgian banking group KBC take a majority shareholding. KBC is expanding its European structured products business into the Australasian retail market and sees Liontamer as central to their strategy. The underlying investments of this fund and the research base for the Water theme are derived from KBC's work in this area. Otherwise it is business-as-usual where terms and conditions are concerned.

The objective of the Fund is to protect invested capital and provide a capital growth element based on the appreciation of an underlying index, the Liontamer Water Index. This comprises 15 water industry stocks from the US, Europe and Japan. Selection of these specific companies has been made by Liontamer from the basket of water-related stocks within KBC's own water index. KBC is acknowledged as being at the forefront of this investment theme. The selection criterion is that these companies are expected to benefit directly from a renewed global focus on water management.

Existing investors will hopefully be familiar with the booster and super booster units typically offered by Liontamer. The crucial elements of this within the Water Fund are the amount of capital protection (either 100% or 90%) the term of the product (five years or four, respectively) and the degree of participation in the index growth (130% or 165% respectively). While certain investors will be attracted by the assurance of 100% capital protection, the enduring appeal of Liontamer's funds for many is the ability to protect the downside to some degree while being able to take a little more risk on the upside. Whether the investor chooses 90% or 100% capital protection, ultimately the effectiveness of the product relies on the success of the chosen underlying index over the term. Investors should not expect a meaningful income stream. An investment in this fund means you are benefiting from the growth of the underlying index without receiving the benefits of any dividends paid by the underlying shares.

Liontamer will buy structured notes from Swiss bank UBS to secure the capital protection element. New Zealand's high interest rate environment enables Liontamer to buy the 'protection' element (the structured note) relatively cheaply, which gives them the ability, subject to low levels of volatility, to gain attractive terms in the options markets to provide the growth 'kicker'. Currency exposure is hedged, so investors are not exposed to fluctuations in exchange rates.

In terms of in-house expertise, the KBC connection gives Liontamer not only the backing of a large international bank, but the backing of a group with complementary business experience and goals. Up to now, New Zealand investors have had Liontamer all to themselves. In future, they will now have to share the company with Australia.

**At-A-Glance Guide**

Investment profile:	International equities
Investment strategy:	Passive, Index-based
Securities held:	Structured notes issued by UBS
Benchmark:	Performance linked to basket of water industry shares
Term:	4 or 5 Years (+/- 6 months)
Growth Options:*	<u>Booster units</u> - 100% protection / 1.3x index return* <u>Super -booster units</u> - 90% protection / 1.65x index return*
Early Maturity	Possible in first 3 years if the value of notes reaches \$1.80
Capital Protection:*	100% or 90%
Fixed Return:	1% per annum, paid 30 June
Base currency:	NZ Dollar
Minimum Investment:	\$5,000
Entry Fees:	3% (rebateable 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

\* participation level depends on level of protection chosen and is subject to the investment held to term

**Advantages of the fund:**

Security of invested capital combined with the potential for capital growth.

A fairly unique underlying investment

**Disadvantages:**

Capital is tied up for four or five years. There is a 2% exit fee for early redemption and there is no capital protection if the fund is not held to maturity, so if the index is down the investor carries the loss. Unless investors have exceptional circumstances for withdrawing early, the maximum unit price is \$1.

**Risks:**

The water industry comprises a diverse range of companies which as a group have shown an ability to outperform the broader market. However, investors are exposed to the specific commercial risks of each company within its sphere of operation. Since analysts do not know who the future 'winners' will be, it is possible that some components of this index will underperform.

**Important background information over the page**

## The challenge and the opportunity of water – product background

In much of the developed world, we take it for granted there will be fresh water to drink and enough clean water to irrigate our land and fill our spa pools. For one sixth of the world's population however, there is a shortage of good water supplies. You only have to look across the Tasman to see how a lack of water can seriously affect a nation's ability to feed its people. If Australia is struggling with just 20 million people, it's hard to imagine how countries the size of China and India are coping. China makes up 21% of the world's population but possesses only 7% of the renewable water resources. Its cities, growing at a massive scale, face severe water shortages. Half the country's rivers are too polluted to serve as a source of drinking water, and a quarter are too contaminated for irrigation. In a few short years, water could become the new oil – fought over by nations anxious to protect their own supply.

That's the doomsday scenario – but in fact the glass is half full. The world is not actually running out of water. However, its supply is finite and, with the amount of fresh water available for consumption estimated to be less than 1% of the total, any decline would be significant. So what does all this mean for investors? Are there opportunities for companies to profit from the opportunity to improve the supply of water? Performance of core water stocks suggests that water does work as an investment theme. Water utilities are among the best performing industry groups in the U.S. stock market. It's a narrow and fairly fragmented industry, certainly. Opportunities in the water space include more efficient irrigation systems, waste-water treatment, desalination technologies, pumps, pipes and valves to transport water from wetter regions to arid ones and water meter and gauging technologies to track usage and quality levels. US group Summit Global Management have been water investors for a long time. They say, "we have never seen an investment theme that comes close to providing the risk-reward characteristics of the global water industry. UBS says, "In our view, the availability and quality of water is a significant driver of risks and opportunities for firms." Liontamer's new majority owners, KBC, are one of only three asset managers worldwide with an actively managed water fund. So this new product is not simply jumping on the environmental post-Live Earth bandwagon. Investors can be confident that the index components have been thoroughly researched.

## Fund Manager Profile – Liontamer Investments

Liontamer funds 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 Managing Director Laetitia Peterson, a Belgian investment banker with an MBA from Chicago and experience gained with Goldman Sachs in the US and UK. Before establishing Liontamer in 2003, she was responsible for developing the BNZ's successful capital protected product series. Investment director Janine Starks was heavily involved in structured products development for the UK adviser firm Chase de Vere before returning to NZ. The team has been bolstered in the last year by other specialists in the field of structured products and financial product marketing. This has culminated in the decision by Belgian bank KBC to take a majority stake in Liontamer, as both groups look to develop their business in Australia. The products themselves, with the involvement of names such as Barclays Bank, 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. GFS carries out research on specific sectors of the global funds industry, particularly in Asia and the Pacific region. It also provides interested parties with the means to identify and access top quality investment funds. Through ongoing monitoring work, they can remain fully appraised of specific fund manager strategies. You can access GFS factsheets on the Liontamer funds at: [www.richardnewell.com](http://www.richardnewell.com)

## Global Fund Services Ltd.

*an investment consultancy*

If you would like more detail of any products contained within the GFS Fund Analysis universe,

email: [richardnewell@xtra.co.nz](mailto:richardnewell@xtra.co.nz)

Or telephone: +64 (0)9 529 1611

Mobile: +64 (0)21 534 456

Mailing address:

8 Elmstone Avenue, Remuera,  
Auckland 1005, New Zealand

*GFS Fund Analysis sheets are not intended as an invitation to invest. Please consult an authorised investment adviser*