

Summary

Launched on 23rd February 2004, this is the latest fixed term capital protected fund from Liontamer. Its previous products have offered participation rates of between 85% and 150% of market growth. As a specialist in the creation of this type of product, Liontamer's protected structures offer value in terms of low fees. Capital protected products are a suitable investment vehicle for conservative clients. They can also complement an investor's more actively-managed investments. They carry penalties for early redemption and are therefore best held to maturity.

EASYgrow 100's objective is to deliver a full return of invested capital plus 100% of the capital appreciation of the MSCI World, an index including 1549 international listed companies and with a free float-adjusted market capitalisation of US\$17.7 trillion. The index grew by over 30% in 2003 and has shown average returns over consecutive 5 year periods since 1978 of 84%.

So, for an investment of \$10,000, if the MSCI World appreciates by 50% over the term of the investment, the investor can expect to receive back \$15,000 from Liontamer, comprising \$9,500 which is 95% of the initial investment, a \$500 fixed return and the \$5,000 market appreciation. The exact return will be calculated according to the monthly average of the index for the last 12 months of the term.

Liontamer achieves the stated objective by buying equity linked notes issued by Morgan Stanley to participate in the growth of the underlying index whilst preserving invested capital.

The MSCI Global Index is calculated without dividends reinvested and is denominated in US dollars. This has implications for the investor in that they will not receive a dividend flow from this investment.

The fund uses currency hedging so that investors are not exposed to fluctuations in exchange rates between the US dollar and the NZ dollar. This allows the investor to avoid having to take a view on currencies. However, there is an element of currency risk within the underlying Index, relating to fluctuations between the various local currencies and the US dollar.

If the NZ dollar moves down sharply from its peak value currently, this fund will underperform an MSCI Global index fund that is unhedged. Liontamer has taken a view that investors want a product that simply allows them to participate in the growth of an index, rather than allowing the return to be affected by changes in currency values, which would defeat the purpose of the capital protection.

Brokerage of 2% of subscriptions to the fund, after deduction of the 3% entry fee, will be paid to financial advisers as initial commission. This is not a cost to the investor, but comes out of the introduction fee paid to Liontamer by Morgan Stanley.

Active investment decisions still need to be made, to ensure that an investor can benefit from a properly diversified long-term strategic asset allocation. But the Liontamer protected structures can be effectively used as part of an investor's core holdings, provided they can lock the money away for five years.

At-A-Glance Guide

Investment profile:	Defensive Growth
Investment strategy:	Passive
Securities held:	Equity-linked notes issued by Morgan Stanley
Benchmark:	performance directly linked to MSCI World Index
Term:	5 and a half years
Investment Return:	100% of the Index growth*
Capital Protection:	95% of initial investment*
Fixed Return:	5 payments of 1% over term*
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

* subject to the investment held to term

Advantages of the fund:

Security of invested capital

The opportunity to lock in gains and remain invested.

The funds are "tax-effective" under current rules as they are AUTs and will make returns to investors through distribution at maturity of tax-free bonus units.

Disadvantages

No dividend income stream

Capital is tied up for five years. There are penalties for early redemption and there is no capital protection on early redemptions, so if the index is down the investor carries the loss.

Early redemption will also trigger a potential tax charge.

Risks:

There is the possibility that the chosen index may not match the performance of other markets and could produce a negative return over the term. This would result in a return of capital but no growth on the investment. As a consequence, the investor will have lost the opportunity to grow that capital in the five year term.

The NZ Government plans to change the taxation of offshore equity investments. However, all other offshore funds would be caught by the same rules creating a level playing field. The company has made a detailed submission to the IRD and is hopeful of a positive response.

Structured Retail Products – product background

The market for investments which attempt to combine capital safety with market exposure is one of the great growth areas for fund marketing around the world. New Zealand has only recently caught on to these products, but advisers have found them to be a product that is easy to get across. Most capital-guaranteed investments are launched for a fixed period and then closed to new investors, with further tranches offered according to demand. The capital guarantee is traditionally achieved by investing part of the capital in money markets or zero-coupon bonds, which grow passively over the investment term to cover the capital amount, a simple low risk means of delivering a return of capital. The active part of the product can take a variety of forms, with the common factor being the use of options. The trade-off between protection and market participation is the key to the success of these products. The low volatility market conditions at present, which have resulted in attractively priced call options, has allowed Liontamer to price this product competitively in comparison to previous issues. This low volatility could be a reflection of a peak in the market, so locking in to a protected product at this point is a sensible move for conservative investors. They will be able to lock in investment gains from 2003, whilst still being exposed to the markets, but with capital protection. So if the market drops in the short term, the investor need not be concerned. Internationally, structured products do have a mixed reputation, especially at the more active end of the market, where some of the high income products have failed to return investors' capital in full. However, Liontamer is operating at the low-risk end of the market and, at the moment, it only offers growth-type products. An income product is scheduled to be introduced in March.

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. Over the last four years in New Zealand, 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 Morgan Stanley, Barclays Bank, 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 our on-going monitoring work, you can remain fully appraised of specific fund manager strategies. The GFS web pages at: www.richardnewell.com also provide a medium for intelligent and practical investment information. We believe in raising people's awareness of investment issues and encouraging them to assess the opportunities that arise from the gyrations of the global economy.

Global Fund Services Ltd

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