

Summary

The Liontamer protected capital fund concept is applicable to a variety of different asset classes. Recent launches have offered investors access to some of the hot investment stories, such as commodities and the boom in China. This latest fund, available during September and October 2005, further expands the group's range by providing international equities exposure in a manner that is likely to have broad appeal. Favourable market conditions have allowed Liontamer to offer highly competitive investment returns with full capital protection. The protection is once again underwritten by Barclays Bank. There is no management fee but there are penalties for early redemption.

The objective of the Global Series fund is to deliver a full return of invested capital, together with a growth element derived from a specially-created world share market index. Liontamer is making available two types of unit, the first of which will appeal to experienced international investors, the other is a more conservative, inflation proofing approach which may suit investors with cash deposits.

The two types of unit are:

a) Booster Units, which will pay investors a return equal to 150% of the growth in the world share markets.

b) Minimum Return Units will pay investors a return equal to the greater of 15% fixed return at maturity, or 100% of the growth in the world share markets.

Both types of unit are fully capital protected. It is only the return on each type of unit which differs. All other features are the same.

Investment advisers may wonder where this fund fits within their clients' portfolio. Being a diversified international equities growth investment, but with the luxury of capital protection, it could easily be used as the core of an investor's portfolio. Many advisers will be applying their asset allocation in a core/satellite manner, so this fund fits their requirements well. It is certainly a better option than many of the benchmark-hugging actively-managed global equity funds available, which carry no protection.

A criticism often levelled at structured products is how much potential growth investors have to give up to secure the capital protection. One would be hard put to make that criticism in this case. How many fund managers can promise they will beat an index by 50% as well as protect investors from losses, and not charge a management fee?

The growth element of the investment return is calculated as the percentage change between the initial and final index levels. The final level involves averaging the last 12 months, to guard against returns being seriously affected by a big fall at the end. In a rising market, that will mean something is shaved off the top. Currency exposure is hedged so investors are not exposed to fluctuations in exchange rates. 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. This does mean the investor will not benefit from any significant downward move by the NZD against other currencies.

At-A-Glance Guide

Investment profile:	International Equities
Investment strategy:	Passive, world index
Securities held:	Structured notes issued by Barclays Bank
Benchmark:	Performance directly linked to the Liontamer Global Index
Term:	5 years
Growth options:	<u>Booster Units</u> - 150% of the Index growth* <u>Minimum Return units</u> - 15% or 100% growth of the Index* 100%*
Capital Protection:	0.05% p.a. paid 30 June*
Fixed Return:	NZ Dollar
Base currency:	\$5,000
Minimum Investment:	3% (rebatable in full or part)
Entry Fees:	None
Management Fees:	Built-in brokerage fee 2%
Other charges:	Closed-ended
Fund Status:	Australian Unit Trust
Domicile/Structure:	NZ Guardian Trust Company
Custodian:	NZ Permanent Trustees
Supervisory authority:	*subject to the investment held to term

Advantages of the fund:

- Security of invested capital
- Provides an effective core holding for investors
- Excellent return prospects for the level of risk
- Choice of units caters for investors and depositors

Disadvantages

- Capital is tied up for five years
- There are penalties for early redemption and there is no capital protection on early redemptions
- Investors will not benefit from a depreciation of the NZ Dollar against the US Dollar

Risks:

For booster unit holders, a negative return for the Index over the term 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 over the term.

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.

Important background information over the page

The Liontamer Global Index – product background

Other Liontamer products, such as the 'Money' series, used past performance as a basis for expected future returns. With this new fund, Liontamer is effectively saying 'forget what has happened in the past, we believe this is where the growth is coming from in the foreseeable future'. Global Series is an international shares fund but it does not reflect the MSCI World Index, the most commonly used benchmark for global equities.

Liontamer is making an asset allocation call, principally to underweight the US and overweight Japan, which advisers need to be aware of in positioning this fund for clients. Liontamer has also looked at how their fund might complement investors' existing holdings. The US underweight assumes that investors with other international fund holdings will already be well served with US equity exposure. The actual asset split of the Liontamer Global Index is 25% US (MSCI is 53% US), 25% Japan (MSCI is less than 10%), 25% Europe (MSCI 16%), 15% UK (MSCI 11%), 5% Hong Kong (MSCI 0.8%), and 5% Switzerland (MSCI 3%).

Are Liontamer being selective in their attitude towards past performance on this new fund? If we look at the performance of the US, Japan, Europe and the UK individually over the last 10-15 years, returns are acceptable in every case, apart from Japan. There are two major blips that distort the long term return figures for global equity. They are the bursting of the Japanese asset bubble in 1989 (when the Nikkei was at 39,000) and the bursting of the dot.com bubble five years ago. So the questions are, does past performance of global equity indices represent what international equities are capable of in the future? Are the crashes in Japan and the US likely to be repeated? Given that Asia is a major engine of global growth at this point in time, should that be better reflected in a global equity index? Liontamer is not disregarding the past entirely, but it is assuming that future growth will not come from the same areas to the same degree. If you seriously disagree with the view that other world markets will outperform the US over the next five years, you are probably fully invested in the US already. In which case, this fund will act as a useful complement.

With such a benign pricing environment for capital protection, Liontamer has been able to come up with one of its most compelling offerings to date. With almost three years of operations under its belt, the Liontamer track record is impressive. It will be interesting to observe how this product is received by the market.

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

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