

Summary - The first two issues of the Liontamer Money Fund have been well supported and advisers are finding a home for the fund in the income asset class. The Money Fund is a novel variation on the income theme. Instead of sliding down the credit scale to achieve higher returns, Liontamer has introduced the idea of variable returns based on the underlying performance of the international money markets. Capital protection remains paramount. Series 2 introduced 'accumulation units' as a feature and 75% of investors elected to take this option. One notable change with Series 3 is that the target returns have declined. These are based on past performance data and the drop is due to additional data (up to end 2004) being added to the calculation.

The fund owns fully capital protected notes, with a Standard & Poor's rating of AA-, issued by Deutsche Bank. The growth component is invested in Deutsche Bank's Dynamic Carry Index (DBDCI), a basket of currencies held on the basis of their relative underlying interest rates.

From a range of 10 major money markets, the index invests in the three markets that have the highest interest rates and borrows money from the three with the lowest interest rates. Growth is generated by the difference in interest rates and by currency movements.

Studying the back-tested data from Deutsche Bank (see over the page for an explanation of the strategy), the Money Fund also offers a better return profile and less volatility than simply playing the Kiwi against the US dollar. There will be times when the NZD is not a high yielder and will therefore not be a part of the DBDCI. At times when the index does include the NZD, exposure would be limited to one-sixth of the currency basket.

The Money Fund has an early maturity feature which is triggered if exceptional growth targets are hit within the first three years. If early maturity does occur, while this is good in terms of the growth achieved in a shorter time-frame, it does cause a 'trigger fee' of 2%. This is payable to Deutsche Bank, who earn their fees on a monthly basis (rather than a standard upfront fee) so the fee is effectively compensating for these earnings stopping short. In addition, early exit fees will apply if clients would like their units to be repurchased by Liontamer. The Money Fund provides a good level of diversification and potential added alpha at low risk. It could be considered a suitable proxy for an international bond allocation or, at least in terms of the growth profile, an equity income fund. The product is still technically an income fund, and it is not unusual in opting to roll-up income. What it does do is make the dynamic currency basket concept more appealing for those who don't need income. The effect of the reinvestment on target returns is significant enough to make this an attractive option.

Base currency:	NZ Dollar
Minimum investment:	\$5,000
Entry fees:	3% (rebateable in full or part)
Management fees:	None levied by Liontamer
Early exit fees:	First 2 years 3%, then 2%. No fee at maturity. Majority of fee payable to Deutsche Bank
Deutsche Bank fees:	1% p.a. and 2% trigger fee in the case of early maturity
Fund status:	Closed-ended
Domicile/structure:	Australian Unit Trust
Custodian:	NZ Guardian Trust Company
Supervisory authority:	NZ Permanent Trustees

At-A-Glance Guide – Income Units

Term:	5 years*
Target coupon:	7% (minimum 0.05%)
Target overall return:	11% per annum
Capital protection:	100% of the principal**

The objective is to deliver a full return of capital, together with a yearly income of up to 7%. At maturity, any amount remaining in the fund, including additional gains above the 7% income, is paid as a further return. This is calculated by reference to the original investment in the underlying index and any gains or losses in the index over the five year term.

At-A-Glance Guide – Accumulation Units

Term:	5 years*
Target coupon:	small fixed return, 0.05% p.a.
Target overall return:	105% at maturity (this equates to 15.5% p.a.)
Capital protection:	100% of the principal**

*or earlier if growth target is met in years 1-3

** subject to the investment being held to term

The objective is to allow any income generated by the currency basket to stay invested in the strategy. Capital protection is provided in exactly the same way and, where an investment in the income units provides for a target growth figure of 23.5%, the investment in accumulation units produces a target growth calculation of 105% at maturity. This equates to an annualised return of 15.5%. These assumptions are based on average daily returns of the DBDCI over the period 1 January 1999 to 19 July 2004. The compounding effect of not taking the income is surprisingly strong, generating significant additional return from a fixed income portfolio. This higher rate of return and potential alpha boost makes the accumulation option a distinctly different proposition from the income units. While the DBDCI is rising, the accumulation units will be compounding and the extra market exposure will produce exceptional performance compared to the income units. So in a largely positive market environment, the accumulation units should outperform. But when the DBDCI falls, gains have not been paid out and can be eroded, resulting in the accumulation units potentially showing a worse performance. The advantage of the income option is the ability to take money off the table and lock in gains. While the accumulation units have a higher target return, the gains remain at risk until maturity, as they remain exposed to the strategy. The analysis carried out by Deutsche suggests the accumulation option will be effective in achieving added growth, but there are no guarantees.

International Money Markets Investment – product background

The simple theory is that currency exchange rates respond to changes in interest rates by appreciating or depreciating according to the interest rate differential between two countries. The DBDCI index seeks to exploit the investment theory that 'money chases yields'. The flow of money into countries with high interest rates causes upward pressure on the currency, creating a further gain. However in times of market instability, returns can be volatile and investors quickly move back to countries with lower interest rates, as these may be considered safe havens. To exploit this investment theory, the Index follows a series of passive rules. The index buys three currencies in regions where interest rates are highest and sells three currencies where interest rates are lowest. The currencies are ranked daily. The index invests in forward exchange rate contracts and the currencies are put in pairs, one from the top ranking and one from the lowest ranking. The effect of the forward contract is to buy the currency from the region with high interest rates and sell the one with low rates. If the investment theory is correct, the currency with the high rates will appreciate against its pair, giving a gain on the forward contract (or a loss if the opposite occurs). Even with no movement in the currencies, the Index would still benefit from the difference in interest rates between the two regions. This system has been tested and is now in use by Deutsche's foreign exchange traders. Long term studies of the so-called 'forward bias' strategy have shown that it is prone to the occasional large losing position (or draw-down) particularly when the risk environment changes. A further refinement of the strategy has been the introduction of a risk-filtering system. This has resulted in a smoothing of returns, where the risk filter acts as a warning of risk-averse markets and alerts the managers to reverse their positions and protect the portfolio. The Deutsche Bank Risk Barometer (DBRB) analyses corporate risk (measured by the volatility of US equity markets and movements in high yield corporate bonds), emerging market risk (measured by interest rates on BB emerging market bonds and the emerging market bond index), liquidity risk (measured by 10 year interest rates in the US) and foreign exchange risk (measured by volatility of global foreign exchange rates). DBRB uses a percentile scoring system based on the ranking and eventual weighted average of the risk measure. The DBRB then compares the current level of the DBRB to its three-month moving average. A break of at least one standard deviation of its moving average would give an indication of "Risk Averse", while a break below one standard deviation would give indication of "Risk Taking".

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. From 2000 to 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 Deutsche Bank, 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 ongoing 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 practical investment guidance.

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