

An introduction to capital protected investments

By *Liontamer Investments*

When it comes to investing money, we all want more 'bang for our buck'. And we want it without losing any sleep at night. Very simply, we'd love the potential of getting the returns possible from equity markets, but we also don't want to worry about whether we'll suffer losses on the capital we've invested.

Capital protected investments provide a strategy that more and more investors are using to achieve this investment objective. If the term 'capital protected investments' is new to you, fear not. The basic concept works like this:

1. You invest your money for a fixed period of time, usually 4-6 years (there have been much longer-term plans around too). Most people feel comfortable with something around the five year mark.
2. Instead of receiving a rate of interest, the returns are generated from asset classes which offer more exciting potential. For example, the returns could be linked to sharemarkets, or commodities, or a variety of other assets depending on the fund manager's selection.
3. The value of your initial investment is protected at maturity, even if the assets go down in value. So long as you stay invested for the full term, you won't suffer the losses.

With investing, it's all about weighing up the potential upside, against the possible downside (risks and returns). The bonus with capital protected investments is they provide you with a win-win on both counts. They aim to generate some very good returns and, at the same time, the fund manager is making sure that you are not exposed to any losses.

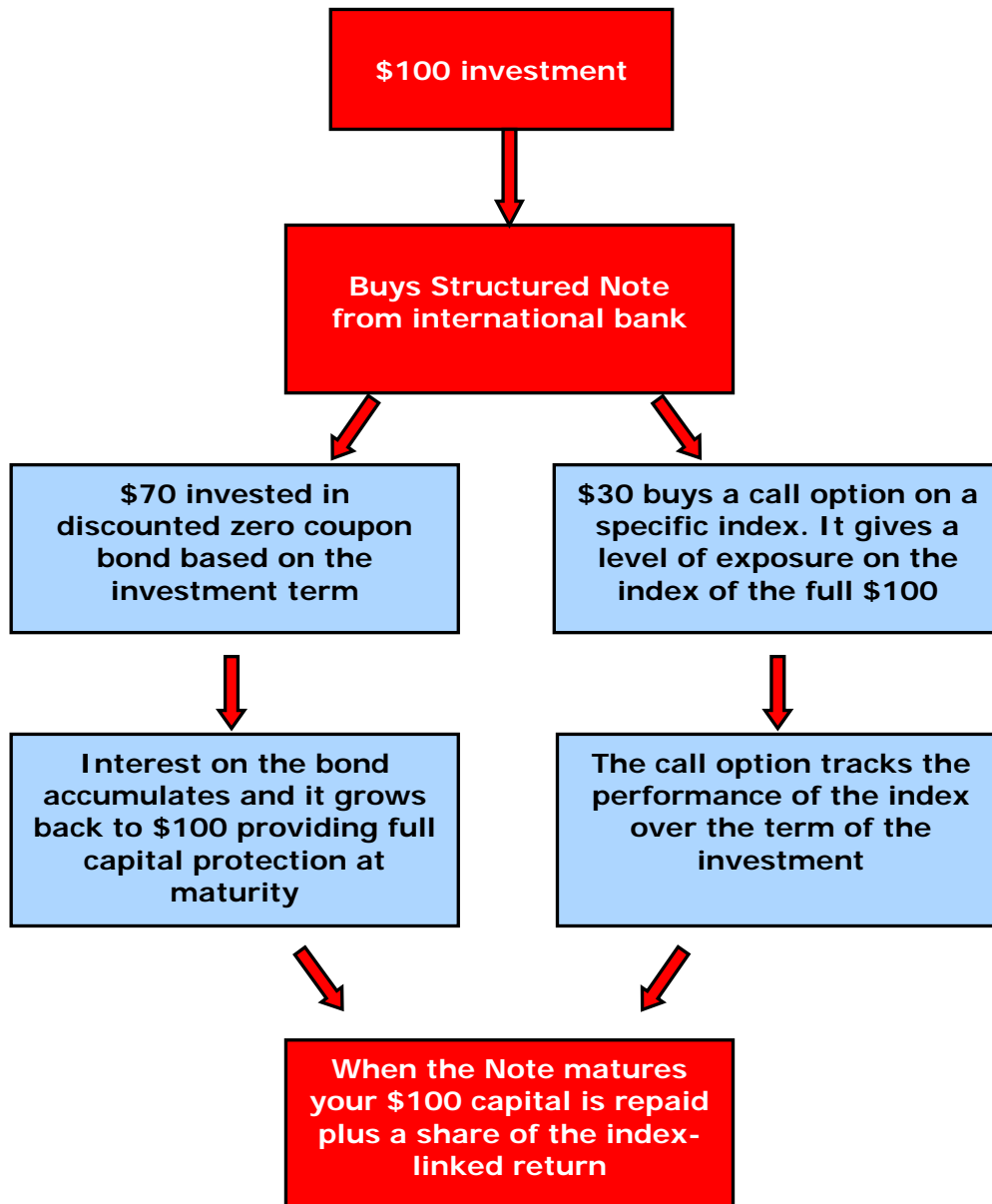
So, how do we do it?

How can a fund manager like Liontamer ensure that your capital will be protected? Well, we structure our funds a little differently from most to take advantage of some innovative financial instruments. Look behind the scenes and you will find that a Liontamer fund actually owns deposits (known as 'notes') with a big international bank. Liontamer use some of the biggest and most well known banks in the world, like Barclays in the UK, UBS (Switzerland), Morgan Stanley (USA) and Deutsche Bank (Germany).

Quite simply, we invest in notes with one of these global investment banks. However, instead of paying interest, these notes pay a return based on sharemarkets or other types of markets, like commodities. The bank who sells the notes to Liontamer is legally responsible for repaying the original investment plus the returns we earn (in the same way that a bank is responsible for paying interest and repaying the principal to its term deposit customers). Like any deposit, the bank must repay its value at the end of the fixed term. This in turn ensures that we can repay you.

With Liontamer's products, capital protection is put in place using a 'zero coupon bond'. This is just a bit of financial jargon which means that a good proportion of the initial application amount goes into a fixed term deposit. As interest accumulates over the term, we can then be certain that the deposit has grown back to the original amount and investors can be repaid. The remainder of the money is used to buy 'call options' and build a structure which lets investors participate in the market growth. Together, the bond and the options create the notes we buy from the international bank.

An example of how the structure works



How good is this 'protection'?

How can you make sure that the protection is strong? If a bank went bankrupt, you would face the risk of not getting your money back – the same applies to your personal deposits with banks. Bank deposits are 'unsecured' investments, but of course the risks associated with them are considered to be pretty low. It's important to make sure a bank is financially strong and has a good credit rating from an agency such as Standard and Poor's or Moody's. The big banks which provide protection to Liontamer's capital protected funds tend to have ratings of A or AA, which mean they are financially very strong, in fact quite often they have higher ratings than many NZ banks.

Better than fixed rate investments?

Fixed rate investments play an important role for all investors – especially in providing income. If you spend this income, you need to be aware that inflation is chewing away at your capital. So it's important to have other investments in your portfolio which could grow your capital over time. It's also important to diversify. Capital protected investments are designed to complement fixed rate investments, so you shouldn't choose one over the other – talk to your adviser and consider having a mix of both.

Top tips to remember:

1. **Invest for the full term** to get the benefit of capital protection. Early withdrawal is often not allowed and means you could suffer a loss and pay a fee to exit. So make sure you have other savings which you can get your hands on in an emergency.
2. **Split your money up** between a few different issues over the course of a year. The returns will be different for each one.
3. **Don't procrastinate.** Offer periods only last for 6-8 weeks at a time and then close. You need to make a fairly prompt decision when you see an offer available.
4. **Relax:** these investments are designed to pay back your money at maturity and big banks with strong credit ratings operate behind the scenes. Compared to an unprotected investment, you have a very good degree of comfort.

Jargon buster - 'participation rate'?

Whenever you buy a capital protected investment, one of the most important things to ask about is the 'participation rate'. What do we mean by this? It's just a piece of jargon which refers to the amount of exposure an investor has to the markets. In the diagram above, it's the amount of exposure your \$100 investment has to a sharemarket index (or another asset class).

- **100% participation rate** – this means you track the market. E.g. the market rises 10%, so you get a 10% return
- **80% participation rate** – if the markets rise 10%, you get an 8% return. You underperform the market
- **120% participation rate** – if the markets rise 10%, you get a 12% return. Your boosted return outperforms the market

For an investment statement and an application form for Liontamer's latest capital protected fund, BRICK Series 1, talk to your financial adviser.

This article is for information purposes only and is not intended for personal investment advice or a recommendation to invest. Full details for BRICK Series 1 are contained in the Investment Statement and registered Prospectus, provided by Liontamer Investment Management Pty Ltd (ABN 23 104 174 325). Copies can be obtained from your financial adviser or by calling Liontamer Investments on 0800 210 451. Capital protection only applies at maturity, or if the early maturity feature is triggered. There is a more detailed description of capital protection in the Investment Statement and the limited circumstances when capital protection may not be available. This is a medium-term investment intended to be held for the full term. Although the Note Issuers are legally liable to repay the investments owned by the trust and all returns on those investments, neither the Note Issuer nor any other entity guarantees the repayment of units or any returns on the units, nor accepts any other liabilities to unit holders. April 2007.