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## FINANCIAL PRODUCTS

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Product: Dividend Yield Fund.

Issuer: NZ Funds Management.

Offer dates: This is a new open-ended fund.

How it works: This is designed for those who want a high income, with potential capital return over the longer term. It's basically a basket of shares in larger New Zealand and Australian shares which offer decent dividends even when the underlying performance of the firms may fluctuate. Well represented are the liquor industry (Lion Nathan and DB), the electricity sector (including Contact) and Sky City. The firms have all been chosen for their size and sustainable dividend policies. The fund aims to achieve 10% after tax but before an annual management fee of 1.75%. It is designed to give a stable income stream over seven years or more, but also preserve or grow capital.

What we like: In a short time the fund has taken \$37 million to add to seed capital of \$30m, and its apparent popularity is being credited to its several payout options. Besides an ordinary dividend payout, investors can choose a regular 4% payout which is likely to keep the original investment intact, or a 5% payout (the most popular option) which is the average net dividend yield from the NZ market. Or they may choose a regular 7% dividend payout, estimated to comprise 5% of dividend and 2% of capital growth. If the fund achieves its 10% return target, that will still leave 2-3% behind as a hedge against inflation.

What we don't like: The fund is structured as an Australian tax resident under Australian tax laws, providing tax benefits for NZ residents. This situation may not survive changes in tax law the NZ Government is considering.

Conclusion: Attractive alternative payout options for people wanting regular income.

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Part: D

Section: BUSINESS

Column: BRIEF

Topics: INVESTMENT

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