

International Investor

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World Stockmarket Forecasts

Stockmarket	One-Year Forecast	Fundamental Indicators	Technical Indicators	Monetary Indicators	Economic Indicators	Historical Performance (in US\$)			Share Index
						3 mths	6 mths	12 mths	
Australia	39%	Neutral	Bullish	Bearish	Bearish	+5.8%	-3.1%	-0.8%	3,293.40
Austria	39%	Bullish	Neutral	Bearish	Bearish	-1.6%	+3.2%	-16.0%	1,173.00
Belgium	41%	Neutral	Neutral	Bearish	Bearish	+2.7%	+6.9%	-16.6%	3,125.41
Canada	39%	Bearish	Bullish	Neutral	Bearish	+17.2%	+18.4%	+64.4%	11,388.82
Denmark	47%	Bearish	Bullish	Bearish	Bullish	+6.3%	+10.8%	+24.2%	996.62
Finland	32%	Bearish	Neutral	Bearish	Bearish	-19.1%	-20.9%	+67.9%	14,843.52
France	45%	Bearish	Bullish	Neutral	Bearish	-1.6%	-2.7%	+22.1%	4,334.65
Germany	40%	Bearish	Neutral	Bearish	Bearish	-6.0%	-13.3%	+16.8%	7,344.67
Ireland	48%	Bearish	Bullish	Neutral	Neutral	+4.8%	-3.2%	-6.9%	5,473.72
Italy	47%	Neutral	Bullish	Neutral	Bearish	-1.4%	-9.5%	+18.6%	33,212.00
Japan	26%	Bearish	Bearish	Bearish	Bearish	+1.6%	-14.6%	-1.4%	16,739.78
Netherlands	41%	Bearish	Bullish	Bearish	Neutral	-1.8%	-4.5%	+4.9%	988.40
New Zealand	35%	Neutral	Bearish	Neutral	Bearish	-1.2%	-13.1%	-14.7%	2,343.44
Norway	47%	Bearish	Bullish	Bearish	Neutral	+16.4%	+12.1%	+21.4%	880.85
Spain	30%	Bearish	Neutral	Bearish	Bearish	-3.6%	-14.6%	-1.4%	1,035.83
Sweden	45%	Bearish	Bullish	Neutral	Bearish	-9.8%	-16.9%	+34.6%	6,086.00
Switzerland	39%	Neutral	Bullish	Bearish	Bearish	+1.2%	+13.7%	+0.8%	8,234.90
Un. Kingdom	40%	Bearish	Bullish	Neutral	Bearish	-0.6%	-2.8%	-1.9%	6,795.00
USA	44%	Bearish	Bullish	Neutral	Bearish	+2.9%	+7.9%	+12.0%	1,520.77
Argentina	51%	Bearish	Neutral	Bullish	Neutral	-3.3%	-10.7%	-2.0%	19,194.03
Brazil	49%	Neutral	Bullish	Neutral	Bearish	+7.0%	-9.7%	+64.6%	17,577.42
Czech Rep.	44%	Bearish	Bearish	Bullish	Bullish	-12.4%	-24.0%	-9.7%	1,649.00
Chile	45%	Neutral	Bearish	Bullish	Bearish	-8.1%	-16.5%	-3.6%	4,978.14
China	47%	Bearish	Bullish	Neutral	Neutral	+8.6%	-2.5%	+14.8%	837.40
Greece	42%	Bearish	Bearish	Bullish	Neutral	-24.3%	-34.8%	-45.3%	3,601.99
Hong Kong	51%	Bearish	Bullish	Neutral	Bearish	+13.3%	+0.1%	+31.0%	17,333.61
Hungary	26%	Bearish	Bearish	Bearish	Bearish	-14.2%	-22.7%	-6.0%	8,454.65
India	19%	Bearish	Bearish	Bearish	Neutral	-1.9%	-20.7%	-9.7%	4,477.31
Indonesia	40%	Bearish	Bearish	Bullish	Bearish	+6.2%	-22.8%	-23.3%	470.42
Israel	63%	Bearish	Bullish	Bullish	Bearish	+9.3%	-2.3%	+56.1%	512.24
Korea	42%	Bullish	Bearish	Bullish	Bearish	-7.4%	-21.3%	-18.2%	692.19
Malaysia	27%	Bearish	Bearish	Neutral	Bearish	-13.9%	-19.1%	+2.9%	767.02
Mexico	48%	Bearish	Bullish	Neutral	Bearish	+5.0%	-16.6%	+35.5%	6,722.41
Philippines	29%	Neutral	Bearish	Bearish	Bearish	-4.8%	-18.3%	-37.6%	1,529.65
Poland	32%	Bearish	Bearish	Bearish	Neutral	-7.8%	-20.1%	+0.6%	18,614.20
Portugal	42%	Neutral	Neutral	Bearish	Neutral	-6.0%	-20.0%	+9.8%	2,871.28
Russia	43%	Bearish	Bullish	Neutral	Bearish	+16.3%	+21.9%	+139.4%	2,333.49
Singapore	53%	Bearish	Bullish	Bullish	Bearish	+13.3%	+2.3%	+1.2%	2,160.70
Sth Africa	33%	Bearish	Bullish	Bearish	Bearish	+13.7%	-0.9%	+7.2%	8,550.45
Taiwan	47%	Neutral	Bearish	Bullish	Neutral	-17.3%	-23.9%	-6.2%	7,420.06
Thailand	26%	Bearish	Bearish	Bearish	Bearish	-12.9%	-24.6%	-31.9%	310.73
Turkey	56%	Bearish	Bearish	Bullish	Neutral	-23.9%	-31.3%	+67.1%	13,070.00
Venezuela	57%	Neutral	Neutral	Bullish	Bearish	-3.7%	+9.0%	+36.2%	6,753.68

One Year Forecasts predict the probability that a stock-market will rise over the next year. Investors should seek to invest in markets with forecasts of 60-100%, while avoiding markets with forecasts of 0-40%. Bullish = Favourable. Bearish = Unfavourable.

Stockmarket Outlook

Our Forecasts for the major stockmarkets have improved slightly. The United States is up to a Neutral 44% (from a Bearish 36% last month) while the United Kingdom is rated at 40% (i.e. Neutral, and up from a Bearish 33% in August). Our Forecast has also improved for France, Germany, Italy, the Netherlands, Sweden, Hong Kong, Mexico and Taiwan.

In most cases these improvements result from a slight rally in share prices - leading to an improvement in the Technical and Trend Following indicators.

Could this be the start of a new global Bull market uptrend? We continue to doubt it. Major world economies are just too close to a peak in the economic cycle. Interest rates - while relatively stable (i.e. favourable) over recent months - will likely start to rise later this year.

Summary and Recommendation

Many of our Forecasts have improved - but are Neutral to slightly Bearish (i.e. unfavourable). The Economic and Monetary situation continues to favour a stockmarket correction rather than a new uptrend.

Therefore we continue to recommend holding a cash reserve equal to 30-40% of international portfolios. The 60-70% invested in equities we recommend weighting heavily towards the Asian stockmarkets. These economies are not so closely correlated to the major economies (which are near cyclical peaks), and the Asian economies should continue to benefit from major economic restructuring and political changes.

We are continuing to look for a suitable time, and suitable opportunities, to re-invest the cash reserve - which is currently earning us interest in a UK deposit account with our broker.

Recommended Funds Geographic Portfolio Spread

Three months ago **Templeton Emerging Markets** had a defensive 18.3% of their portfolio in cash, but that is now down to 0.6% as the trust increases its holdings in Asia and Latin America.

Baillie Gifford Shin Nippon, however, has become more defensive - with its cash holding up to 22.5% of its portfolio (from 2.7% previously). This cash holding almost exactly equals its bank loans - leaving the fund effectively unleveraged at the present time.

Fidelity Asian, Fleming Asia and Schroder Asia Pacific have made no significant changes to their portfolios. **Gartmore Pacific** has increased its cash holding (to 11.7%, from 1.7%), mainly from a reduction in its investment in **Korea** (down to 13.6%, from 21.7%).

HSBC Hong Kong has become more aggressive by investing its previous 9.1% cash holding, and is now 100% invested in **HK** and **China** shares.

Although unit trusts are not permitted to borrow to leverage their portfolio, HSBC Asian Fund was effectively leveraged by 7% at the date of its June 15 half year report. The trust owed £8.5 million to investors redeeming units, but had only cash of £3.6 million and £2.7 million owing from its brokers. Three months ago this unit trust held 9.0% of its portfolio in cash. As a result of the drop in the cash holding - and unintentional leverage - the percentage of assets has risen in both **Hong Kong** shares (up to 43.4% from 34.4%) and **Taiwan** shares (up to 28.6% from 19.6%).

Fund Name	Size (Mil)	Leverage (% debt)	Top 10 Hldgs (%)	Portfolio invested in (%):-													
				Cash	HK	Australia	Malay	Japan	Taiwan	Korea	Sing.	Thail'd	Phil.	China			
Fidelity Asian Values plc	£127	20	35.1	1.0	32.0			10.0		24.0		12.0					
Fleming Asia IT plc	£219	15	45.3	8.0	33.0			3.0		15.0	16.0	11.0	2.0			India 11%, Indonesia 1%	
Gartmore Pacific Gth Fund	£111	Nil	43.2	11.7	36.9	5.0	2.1			15.3	13.6	13.1	1.4		0.6	India 0.3%.	
HSBC Asian Fund	£29	7	42.9	0.0	43.4			7.0		28.6	12.6	10.6	3.5	0.4		Indonesia 1.1%	
HSBC Hong Kong Gth Fund	£38	Nil	56.3	0.0	95.1											4.9	
Henderson Asian Enterprises	£109	Nil	27.6	8.5	20.5	20.3	3.0			10.1	11.4	11.2	3.2		11.8		
Schroder Asia Pacific plc	£144	8	46.0	0.0	31.4			6.1		22.2	25.0	11.7	1.6	0.5		Indonesia 1.5%	
Baring Korea	£65	Nil	41.3		4.8						95.2						
Old Mutual Thailand	£7	Nil	54.3		0.2								98.8				
				Cash				USA	UK	Europe	Japan						
Baillie Gifford Shin Nippon plc	£91	21	31.2	22.5												76.5	
Invesco Japan Discovery Trt	£52	10	40.1	8.4												91.6	
				Cash				Asia	Latin Amer	Africa	Europe & Middle East						
Aberdeen Emerging Markets	£14	Nil	23.2	2.7	46.9					22.8	7.7		19.9				
Templeton E/Markets plc	£755	Nil	21.8	0.6	38.5					28.4	13.1		19.4				

(South Africa 13.1%, Brazil 12.9%, South Korea 11.6%, Mexico 10.5%, HK 5.8%, Turkey 5.7%, Thailand 5.6%)

Recommended International Investment Funds

The decline in the NZ dollar over the last month has helped boost the value of all of our international investments - but some of our investments have bounced back strongly from recent weakness:

Invesco Japan Discovery shares - which have been extremely volatile over recent months - jumped 42% in value over the last month! Our other Japanese smaller companies fund, **Baillie Gifford Shin Nippon** rose 24%. **Templeton Emerging Markets** warrants jumped 43% in price to 31½ pence - although our *Listed Investment Trust Warrant Analysis* still rates these warrants as 36% *under-valued*.

Our other three warrants, **Fleming Asia**, **Fidelity Asian** and **Schroder Asia Pacific**, all rose 14-20% over the last month - with our *Warrant Analysis* rating all of these warrants 32-40% *under-valued*.

Our investments have performed strongly over the

last month and we remain confident about their long term potential - especially in Asia where we are happy to have slightly leveraged our portfolio in under-valued warrants which will maximise our returns over the next 4-6 years. We, however, remain cautious about many other stockmarkets and continue to recommend holding a cash reserve equal to 30-40% of international portfolios.

Fund News

Templeton Emerging Markets continues to repurchase its own shares at a 20% discount to its net asset value. Over the last month the trust repurchased 650,000 shares at 119 pence, 425,000 shares at 121¼ pence, 450,000 shares at 122 pence, a further 700,000 shares at 122 pence, 540,000 shares at 122½ pence and 750,000 shares at 122¾ pence. That leaves an issued capital of 461,128,671 shares.

Current Advice	Investment Fund	EPIC Code	Initial Recommendation		Prem/ Disc to Net Assets	Recent Price		Gain or Loss %	
			--- Date ---	Offer Price		Bid-Offer or Last Sale	NZ Cents		
Asia									
BUY	Fleming Asia WARRANTS	FAIW	07/03/00	43.8p	141.7	35.0p	120.0	-15	
HOLD	Fidelity Asian Values WARRANTS	FASW	10/03/98	17.5p	49.7	32.25p	110.5	+122	
HOLD	Gartmore Pacific Growth Fund	*	29/10/85	41.4p	105.4	217.44-232.56p	771.2	+632	
HOLD	HSBC Asian Fund	*	10/11/98	34.4p	106.3	54.43-57.78p	192.3	+81	
HOLD	HSBC Hong Kong Growth Fund	*	07/04/98	159.4p	481.6	229.0-243.10p	809.1	+68	
BUY	Henderson Asian Enterprises	*	08/08/00	342.2p	1122.6	328.1-349.68p	1161.6	+3	
BUY	Schroder Asia Pacific WARRANTS	SDPW	13/07/99	25.5p	75.8	26.5p	90.8	+20	
Japan									
HOLD	Baillie Gifford Shin Nippon plc	BGS	11/01/94	156.0p	440.3	-16%	194.0p	665.0	+51
HOLD	Invesco Japan Discovery Trust	IJD	13/07/99	95.5p	284.0	+2%	153.5p	526.1	+85
Korea									
HOLD	Baring Korea Trust	*	12/04/94	81.1p	209.4	74.26-79.57p	263.6	+26	
Thailand									
HOLD	Old Mutual Thailand Trust	*	08/12/98	49.0p	155.9	46.08-50.82p	166.1	+7	
International									
HOLD	Aberdeen Prolific Emerging Markets	*	13/08/91	39.0p	116.1	74.32-78.63p	262.1	+126	
HOLD	Templeton E/Markets WARRANTS	TEMA	13/07/99	40.3p	119.7	31.5p	108.0	-10	

* United Kingdom based Unit Trust

Other Shares and Warrants

Alternative investments in the UK listed investment trust shares and warrants recommended above include **Fidelity Asian Values** shares at 95 pence (-10%, i.e. 10% *below* net asset value), **Fleming Asian** shares at 114¾ pence (-7%), **Schroder Asia Pacific** shares at 94 pence (-8%), **Templeton Emerging Markets** shares at 128 pence (-21%), **Baillie Gifford Shin Nippon** warrants at 60½ pence, **Invesco Japan Discovery** warrants trade at 91½ pence.

Buying and Selling UK based Unit Trusts

To invest in UK based Unit Trusts (or their new form, OEIC - Open Ended Investment Companies) you need to deal directly with the UK based Fund Manager or a UK based adviser/broker like **Chelsea Financial Services** or **FasTrade**.

FasTrade

Over recent years, **FasTrade** (www.fastrade.co.uk) has been by far the best choice - but they have recently increased their buying *and* selling charge by an *additional* £40.

FasTrade used to charge its standard 0.5% commission (with a £15 minimum and £30 maximum) when buying and selling, but would rebate the 3% commission received from the Fund Manager, which investors would receive in the form of a lower purchase price (i.e. additional units). Holding the UK unit trusts in FasTrade's nominee account (at no additional charge) was very convenient and allowed the units to be quickly sold with just an e-mail to the broker.

Now FasTrade has added a £40 "surcharge" - raising the cost to £55-70 per transaction. That increases the total cost (i.e. buying and, at some stage in the future, selling) to at least £110. At these new rates an investor would need to be making investments in excess of £3,666 for the 3% fee rebate to cover the broker's charges. FasTrade, however, still offers the fastest, easiest and most convenient method of buying or redeeming UK unit trusts.

Chelsea Financial Services

An alternative method of buying UK based Unit Trusts is to invest via Chelsea Financial Services (www.chelseafs.co.uk). Address: St James' Hall, Moore Park Road, London SW 6 2JS, United Kingdom. Telephone: 00-44-20-7384 7300, Fax 00-44-20-7384 7320.

Chelsea will rebate 1% on investments from £1000-1999, but rebate 1-4% (depending upon the fund, although 3% is most common) on investments of £2000 or more. In nearly all cases you will receive this rebate in the form of a lower price.

Whereas all of the settlement buying and selling is handled by FasTrade, dealing through Chelsea involves more administration for the investor - and you will probably need to get a UK cheque account to help manage your investments.

To Buy through Chelsea, download and print the Order Form from their website, make your payment out to the Fund Manager and mail the Order Form and cheque/bank draft to Chelsea. You'll receive a contract note from Chelsea and the unit trust will be registered in your own name.

Subscribers without access to the internet can contact us and we will print a Chelsea application form and mail it to you.

To later redeem the unit trust investment you will deal directly with the Fund Manager - who will either

mail you a cheque (in Pounds Sterling) or can make a direct credit to your UK bank account.

A Comparison of Using FasTrade and Chelsea

With FasTrade you can buy or redeem a unit trust investment immediately. Just send an E-mail. The money will be withdrawn/deposited into your account on the settlement date.

Using Chelsea you need to mail your cheque to the UK, which takes just under one week. Redemptions are made directly with the Fund Manager involved. Most issue "uncertificated" units and will allow you to make a redemption by telephone, facsimile and/or e-mail (although you may need to complete paperwork with each Fund Manager authorising these methods and/or nominating your UK bank account if you want a direct credit). If you don't have a UK bank account, then allow another week for the cheque to arrive in NZ.

Investing through FasTrade is certainly much easier, but it is their higher fees that are becoming unattractive.

Summary & Recommendation

Chelsea has no fees, and rebates the 3% commission back to the investor but (for a non-UK based investor) is slow, cumbersome, requires a reasonable level of administration and probably opening up a UK cheque account (which will involve fees or a minimum account balance). FasTrade rebates the same amount but charges £55-70 buying and another £55-70 when you come to sell. It is, however, very quick, easy and convenient to have all of your UK investments held in one account.

The higher FasTrade fees on Unit Trusts, however, will make us tend to favour Listed Investment Trusts which can be bought or sold at the standard £15-30 commission.

Unfortunately, very few companies offer the unit trust rebates, so we know of no better alternatives.

Important Note

FasTrade have regularly changed small aspects of their charges, so this £40 "surcharge" may be subject to change. We know the company has had considerable *unfavourable* feedback from its UK customers to this new charge. If you are a FasTrade customer and unhappy about the significant price increase (i.e. up from £15 to £55 per trade, an increase of 267%), send them in an e-mail with your feedback about the new charge. They may even listen and review this charge.

Next Issue: UK Internet Broker Survey

Many new UK internet brokers have been established over the last year. We are currently reviewing their range of services and fees, and will publish a full report next month. Investors can also check the *Free Advice* page of our internet site (www.stockmarket.co.nz) where we will post brief details and links to any suitable brokers.

Will NZ Introduce a Capital Gains Tax on UK based Funds?

At the present time, most NZ (and Australian) based Unit Trusts and Listed Investment Trusts are either subject to capital gains taxes or distribute their capital gains as "Income" on which investors pay income tax. On the other hand, UK based Unit Trusts and Listed Investment Trusts are exempt from UK capital gains taxes and NZ investors pay no capital gains taxes on investments in these funds. (Income is, of course, taxable.)

There has been talk of changing this uneven tax situation for the last fifteen years. In the mid-1980's it was widely expected that the Foreign Investment Fund tax regulations would include UK funds - but these, and the securities of other major countries, were specifically *excluded*.

The question of this uneven tax treatment has resurfaced following plans by AMP to market in NZ the UK unit trusts managed by its subsidiary, Henderson Unit Trust Managers. The group seeking the tax change - other NZ fund managers - are, however, only interested in protecting their own business and income. If this group was interested in the *investors* then they would argue that NZ funds should not be subject to a capital gains tax at the relatively high rate of 33%. Now - as in the 1980's - these fund managers want the NZ government to impose a capital gains tax on the UK unit trusts and UK listed investment trusts - removing the competitive threat that these UK funds offer to the NZ based funds!

If they are successful in achieving that, watch out for these fund managers lobbying politicians for a *general capital gains tax* to catch all private investors!

What Will Happen?

Probably nothing - with the "problem" thrown back in the "Too Hard" basket where it has been for the last fifteen years.

NZ has no general capital gains taxes. The Inland Revenue attempts to tax "investment companies" and unit trusts on their capital gains based upon its *interpretation* of the tax law - without any specific capital gains taxes legislated by Parliament! In recent years, several tax cases referred to the courts have been decided *against* the Inland Revenue's attempts to impose capital gains taxes on investments.

Neither the Inland Revenue nor the NZ Government have any legal ability to tax a UK based unit trust or UK based investment trust. Any attempt to tax capital gains on these investments would need to focus on the NZ resident investors. The problem here, of course, is *enforcability*. While the Inland Revenue can now trace

domestic interest income (by requiring companies paying interest to deduct tax *and* collect IRD numbers from investors) it is still difficult to trace foreign unit trust or listed investment trust investments. There are over 1000 unit trusts in the UK - and many investments may be held via broker nominee accounts.

Imposing a capital gains tax which investors perceive as "unfair" may simply result in the non-disclosure of these investments. No capital gains taxes would be collected and investors would also evade income tax on the dividends!

Attempting to tax a *particular type* of investment (i.e. only unit trusts and investment trusts) - would certainly be discriminatory and unfair. Attempting to introduce a general capital gains tax - covering shares, property investments, second homes, the family farm - is generally considered to be political suicide for any NZ government!

The Situation in Other Countries

NZ is the only OECD country not to have some form of capital gains taxes. NZ is also one of the few not to have tax *incentives* to encourage long term savings.

Capital gains taxes are also generally relatively complex - with a range of exemptions. For example, the UK has a capital gains tax, but the first £7200 per year per person is non-taxable. That is an exemption equal to NZ\$50,000 per couple per year - so only the very wealthy are likely to ever actually be liable to pay any capital gains taxes! The UK also offers tax incentives to encourage long term savings for retirement. Australia taxes only 50% of capital gains, but also offers very significant tax incentives for superannuation savings (with an individual's unlimited capital gains within a superannuation fund taxed at just 10%).

A general capital gains tax in NZ would help the current policy of "closing the gaps" by driving more of our talented and wealthy people overseas. Introducing a level of exemption (as in the UK) or tax incentives for saving (as in most developed countries) would cost more than is already collected from NZ unit trusts and superannuation funds.

Conclusion

While our favourite investment vehicles - UK based unit trusts and UK based investment trusts - may be unpopular with NZ fund managers, it is not easy for any government to attempt to impose a capital gains tax on foreign based funds. Therefore we are not anticipating any significant tax changes.

Readers Ask . . .

Question: I have not been able to trace the epic code for your recommended trust Henderson Asian Enterprises. Can you advise?

Answer: Only listed UK securities - shares, investment trusts, warrants - have an EPIC code. Henderson Asian Enterprises is an unlisted UK unit trust.

Question: I was wondering whether the time is right to be buying UK based investments the way the NZ dollar has gone in the past few days. Maybe it would be better to hold off until the dollar recovers and in the meantime look at what bargains may present themselves in the NZ market?

Answer: I had that same question when the NZ dollar fell from US\$0.68 to around US\$0.58 in late 1997. It certainly didn't pay to hold off international investment at that stage.

I don't believe that it is possible to predict exchange rate movements with any degree of accuracy. As an investor you need to assess the attractiveness of NZ shares relative to international funds, and you also need to consider what spread of investments (i.e. NZ shares, Australian shares, international funds) is appropriate to your personal financial situation. When you have decided *how much* you should be investing overseas just go out and buy the foreign currency. Your exchange rate risk (i.e. the risk of buying foreign currency at the "wrong" time) will be minimised if, like most people, you build up your investment portfolio from savings over a period of many years.

Question: Could you please explain unit trusts versus investment trusts? Which ones sell at a premium/discount?

Answer: Unit trusts and investment trusts are both structures for pooling individual investors money. The difference is in the way they accept new investors and repay investors who want to get their money back.

A unit trust is unlisted. *Investors buy or redeem units with the fund manager* who will (1) *create new units* at net asset value (plus some costs and fees) for investors wanting to invest in the trust, and (2) *sell investments from the portfolio to re-purchase existing units* at net asset value from investors wanting to get their money back. The funds under management in a unit trust can therefore get bigger or smaller depending upon whether investors are putting money in or taking it out. Therefore your investment in a unit trust will fluctuate in value in line with the fluctuations in the value of investments held by the trust.

An investment trust will be listed on the stock exchange. At some time in the past, the trust will have been floated, and investors offered a fixed number of shares, raising a fixed amount of money for investment. After that initial capital raising, the trust will not issue or redeem its own shares (although, like any company, it may make a cash issue at any time to raise additional new money for investment or it may re-purchase its

own shares on the stockmarket and cancel them). *New investors wanting to invest in an investment trust will need to buy existing shares in the trust on the stockmarket. Similarly, existing investors cannot redeem their shares but can only sell them on the stockmarket.* The price at which investors can buy or sell the shares is therefore determined by *supply and demand* - so the market price of the investment trust shares may be *higher* than its net asset value (i.e. a *premium*) or lower than its net asset value (i.e. a *discount*). An investment in a listed investment trust will fluctuate owing to the supply and demand for the shares which - over the long term - should depend upon growth in its net asset value.

There are advantages and disadvantages in both unlisted unit trusts and listed investment trusts:

1. The manager of a unit trust needs to manage cash flow from new investments into the fund and redemptions from the fund. A large cash inflow or a large cash outflow - or even worse a *series* of large inflows and outflows - can distract the manager from the objective of maximising long term capital growth. An investment trust has a fixed amount of money to invest, so there is no problem with cash inflows or outflows.
2. With a unit trust there is certainty over the value of your investment. You can always buy more units at net asset value, or redeem some of your existing units at net asset value. With a listed investment trust the value is determined by the market - and may be more or less than the trust's net asset value. This *can* offer the potential to buy into a trust at a *discount* and boost your returns by selling at a later date at a *premium*. In practice, investors probably find that when they want to buy into a Technology trust it is selling at a premium, and when they want to sell it is trading at a discount!
3. Management fees and costs: Investment trusts *usually* have slightly lower fees (around ½% per annum lower) than unit trusts. However, UK based funds generally have lower fees (around 1-1½% lower) than NZ and Australian based funds.
4. Buying and selling costs: With a unit trust there is a 6-8% fee built into the initial buying price - although this reduces to about 3-4% after fee rebates if buying through a company like Chelsea or FasTrade.

Buying and selling listed investment trusts involves two costs: Firstly, brokerage. This can range from a £100 minimum and 2% of the value of the shares if using a NZ broker, to as little as £10-15 using a UK discount broker. Secondly, the "market-makers" bid/offer spread. Several UK brokers act as "market-makers" in each company's shares. The "spread" between the offer price (i.e. which investors pay to buy) and the bid price (i.e. what you get when you sell) can vary from ½-1% for most actively traded securities to around 3-8% for less actively traded, more volatile, securities.

Overall, there isn't much to choose between unit trusts and investment trusts, with the decision usually based upon the best managed fund available.

Listed Investment Trust

Warrant Analysis

Warrants are attractive to higher risk investors wanting to increase their leverage - and cheaper than using *margin loans* or buying the expensive *Endowment warrants* offered in Australia. When the market *under-values* warrants they can also become the *cheapest* entry into an investment fund - and attractive to even conservative investors - who can buy warrants *and* put money in the bank to get an appropriate risk exposure.

Our *Warrant Analysis* should be used together with the *Investment Fund Surveys* - with investors seeking to buy under-valued warrants, with low break-even rates in the best managed funds. In addition to our

formal recommendations, attractive warrants may include **Gartmore Fledgling Index** (the fund rates well in our *Investment Fund Survey*, low break-even rate on the warrants and high leverage), **Guinness Flight Extra Income** (fund rates reasonably, warrants 35% under-valued, a *negative* break-even rate and high leverage), **Scudder Latin America** (rates well, very under-valued, low break-even rate, good leverage), **Oryx International** (under-valued, low break-even rate, high leverage), **Gartmore European** (very well managed fund, low break-even rate), **BG Shin Nippon** and **Fidelity Japan** (both good funds, under-valued warrants, high leverage).

Warrant	Current Share Price	Warrant Exercise Price	Years & Months to Expiry	Current Warrant Price	Black-Scholes Value	Warrant Over/Under Valued (%)	Share Volatility	Warrant Leverage	Warrant Return (%p.a.) from Break-Even	Share Price appreciation of:	5%pa	10%pa	20%pa	Rate
INDIA														
Fleming Indian	83.8p	100.0p	3-5	20.75p	24.48p	-15	0.388	2.3	-100.0	-7.3	+33.8	+11%		
UNITED KINGDOM														
Aberforth Smaller Coys	285.5p	100.0p	2-6	185.50p	199.84p	-7	0.226	1.4	+7.6	+14.9	+29.0	+0%		
Dartmoor	151.5p	118.0p	1-10	28.00p	47.04p	-40	0.178	3.1	+33.7	+54.9	+93.2	-2%		
Eaglet Investment Trust	357.0p	100.0p	2-1	261.00p	269.10p	-3	0.280	1.3	+6.1	+12.8	+25.9	+1%		
Edinburgh Smaller Coys	229.5p	100.0p	8-0	150.50p	170.04p	-11	0.272	1.3	+6.0	+12.7	+24.8	+1%		
F & C Income Growth	126.0p	100.0p	2-10	36.50p	43.38p	-16	0.180	2.8	+7.4	+22.6	+48.2	+3%		
Fidelity Special Values	223.5p	100.0p	3-4	123.50p	142.22p	-13	0.212	1.6	+8.7	+16.8	+31.8	+0%		
Gartmore Fledgling Indx	166.5p	100.0p	1-3	64.50p	74.23p	-13	0.260	2.2	+15.2	+27.7	+52.3	-1%		
Hill Samuel UK Emerging	192.8p	100.0p	1-6	91.00p	102.23p	-11	0.327	1.9	+11.7	+21.8	+41.6	-1%		
Legal & Gen'l Recovery	173.5p	100.0p	4-1	83.00p	95.92p	-13	0.161	1.8	+7.6	+16.7	+32.9	+1%		
Perpetual Income & Gth	120.5p	100.0p	5-11	37.00p	55.93p	-34	0.240	2.0	+8.8	+20.5	+38.5	+2%		
Schroder Income & Grwth	136.8p	100.0p	3-3	42.00p	55.44p	-24	0.161	2.4	+11.7	+24.9	+47.1	+1%		
Schroder UK Growth	152.3p	100.0p	1-11	53.00p	63.97p	-17	0.219	2.3	+13.2	+26.2	+50.4	+0%		
Guinness Flight Extra	143.0p	100.0p	1-9	35.00p	53.62p	-35	0.190	2.6	+30.5	+47.3	+78.8	-3%		
Gartmore Irish Smaller	216.5p	100.0p	0-10	119.00p	121.53p	-2	0.254	1.8	+6.6	+15.7	+34.2	+1%		
SOUTH AFRICA														
Old Mutual South Africa	89.0p	100.0p	1-3	8.25p	13.81p	-40	0.386	3.8	-100.0	-93.7	+33.0	+17%		
UNITED STATES														
F & C US Smaller Coys	210.5p	100.0p	2-2	113.00p	123.08p	-8	0.211	1.7	+8.2	+17.0	+33.8	+1%		
US Smaller Companies	365.0p	100.0p	2-0	222.00p	276.65p	-20	0.263	1.3	+16.7	+24.1	+38.5	-6%		
LATIN AMERICA														
Aberdeen Latin American	76.0p	100.0p	9-1	20.75p	47.29p	-56	0.513	1.3	-1.3	+16.1	+34.1	+5%		
Edinburgh Inca	27.8p	50.0p	8-5	6.75p	14.63p	-54	0.512	1.5	-100.0	+7.0	+33.9	+9%		
Scudder Latin America	107.3p	100.0p	3-11	27.75p	50.41p	-45	0.487	1.7	+1.9	+19.5	+45.0	+5%		
EMERGING MARKETS														
Abtrust Emerging Econ.	75.5p	100.0p	7-4	20.00p	34.43p	-42	0.392	1.7	-11.8	+13.9	+35.7	+7%		
Dresdner RCM Emerg Mkts	100.5p	100.0p	3-10	26.00p	34.90p	-26	0.328	2.2	-5.2	+15.3	+42.9	+6%		
F & C Emerging Markets	71.3p	102.0p	2-6	7.50p	15.70p	-52	0.469	2.6	-100.0	-100.0	+13.9	+19%		
Murray Emerg. Economies	66.3p	100.0p	3-5	8.50p	17.05p	-50	0.450	2.3	-100.0	-100.0	+34.7	+16%		
Schroder Emer Countries	75.5p	100.0p	6-0	17.75p	30.59p	-42	0.401	1.8	-36.4	+11.3	+38.5	+8%		
Tea Plantations	36.5p	100.0p	1-4	4.50p	0.02p	+29288	0.288	16.4	-100.0	-100.0	-100.0	+120%		
Templeton Emerging Mkts	125.5p	133.0p	4-0	28.75p	45.01p	-36	0.371	2.1	-9.2	+15.3	+45.0	+7%		

Warrant	Current Share Price	Warrant Exercise Price	Years & Months to Expiry	Current Warrant Price	Black-Scholes Value	Warrant Over/Under Valued (%)	Share Volatility	Warrant Leverage	Warrant Share Price 5%pa	Warrant Return (%p.a.) from Break-Even	Warrant Share Price appreciation of: 10%pa	Warrant Share Price appreciation of: 20%pa	Warrant Even Rate
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TECHNOLOGY

Henderson Technology	553.5p	100.0p	5-0	452.50p	480.39p	-6	0.356	1.2	+6.0	+11.8	+23.1	-0%
Herald Investment Trust	652.5p	100.0p	2-7	551.50p	567.28p	-3	0.341	1.2	+5.9	+11.7	+23.2	-0%

INTERNATIONAL

Asset Management	172.5p	99.2p	1-4	67.00p	82.21p	-19	0.338	2.0	+19.4	+31.7	+55.6	-3%
Oryx International	150.0p	100.0p	4-3	51.50p	74.15p	-31	0.203	2.0	+12.4	+23.2	+41.6	+0%
Pantheon International	585.0p	250.0p	1-1	333.50p	351.22p	-5	0.182	1.7	+9.2	+17.9	+35.3	-0%

EUROPE

Fidelity Euro Values	548.0p	100.0p	0-7	443.50p	451.55p	-2	0.283	1.2	+8.0	+14.2	+26.8	-1%
Gartmore European	537.0p	220.0p	3-4	316.50p	358.37p	-12	0.249	1.5	+8.2	+15.9	+30.4	-0%
Gartmore Irish Small	216.5p	100.0p	0-10	119.00p	121.53p	-2	0.254	1.8	+6.6	+15.7	+34.2	+1%
Mercury Euro Priv.	215.5p	100.0p	3-10	116.50p	137.10p	-15	0.252	1.6	+8.6	+16.7	+31.6	+0%
TR European	463.0p	166.0p	3-1	298.50p	326.10p	-8	0.280	1.4	+7.4	+14.7	+28.5	+0%
SR Pan-European	138.0p	39.0p	0-8	100.50p	100.58p	-0	0.368	1.4	+4.6	+11.5	+25.3	+2%

JAPAN

B Gifford Shin Nippon	190.5p	200.0p	4-7	60.00p	78.12p	-23	0.397	1.9	-9.4	+10.5	+35.2	+7%
Fidelity Japan Values	117.5p	100.0p	3-7	42.75p	52.46p	-19	0.420	1.9	-1.9	+12.6	+35.2	+6%
Gartmore Select Japan	89.0p	100.0p	2-8	18.00p	22.59p	-20	0.366	2.7	-62.0	-7.2	+40.7	+11%
Invesco Japan	152.0p	100.0p	4-1	92.50p	89.55p	+3	0.495	1.5	-1.9	+7.5	+23.6	+6%
Invesco Tokyo	52.0p	55.0p	3-9	16.25p	17.09p	-5	0.344	2.3	-18.8	+4.8	+33.5	+9%
Martin Currie Japan	139.8p	100.0p	2-0	50.25p	55.18p	-9	0.313	2.3	+3.7	+17.3	+41.9	+4%
Martin Currie Japan (2005)	139.8p	100.0p	5-1	62.00p	73.41p	-16	0.313	1.7	+4.9	+15.1	+31.9	+3%
Perpetual Japan	62.8p	100.0p	0-2	0.75p	0.01p	+14458	0.377	68.3	-100.0	-100.0	-100.0	+1614%
Schroder Japan Growth	99.3p	100.0p	4-2	28.50p	35.15p	-19	0.320	2.2	-6.4	+13.1	+38.9	+6%

FAR EASTERN

Edinburgh Dragon Trust	91.8p	60.0p	4-4	41.00p	49.83p	-18	0.344	1.7	+6.3	+16.2	+33.2	+2%
Edinburgh New Tiger	13.8p	50.0p	8-6	3.75p	1.78p	+111	0.302	2.7	-100.0	-100.0	+17.5	+17%
Fidelity Asian Values	95.0p	100.0p	5-11	32.25p	47.12p	-32	0.433	1.6	-3.1	+13.1	+33.6	+6%
Fleming Asia	114.5p	100.0p	4-5	34.50p	57.25p	-40	0.458	1.7	+4.6	+19.0	+40.8	+4%
Invesco Asia	78.0p	100.0p	3-10	14.00p	22.67p	-38	0.386	2.3	-100.0	-3.1	+44.2	+10%
Pacific Assets	81.8p	130.0p	1-8	4.25p	8.26p	-49	0.430	3.8	-100.0	-100.0	-100.0	+35%
Pacific Horizons	52.3p	56.0p	1-9	9.00p	12.72p	-29	0.438	2.8	-73.1	-22.7	+38.4	+13%
Schroder Asia Pacific	93.8p	100.0p	5-4	25.50p	42.84p	-40	0.420	1.7	-3.1	+15.8	+39.0	+6%
Scottish Oriental Sm Co	84.5p	100.0p	6-4	24.25p	37.75p	-36	0.390	1.7	-7.2	+13.6	+35.8	+6%
Abtrust Asian Smaller	108.3p	100.0p	10-2	46.00p	67.09p	-31	0.346	1.4	+5.3	+14.7	+28.5	+3%

HONG KONG / CHINA REGION

Fleming Chinese	81.0p	100.0p	3-5	22.00p	26.13p	-16	0.450	2.1	-100.0	-15.9	+27.9	+13%
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