



# New Star Financial Opportunities Fund

Newsletter – January 2008

**Investment policy:** The objective of the Company is to provide shareholders with a high level of income and the potential for capital and income growth. The Company will seek to achieve its investment objective by investing predominantly in the equity, debt or other securities of listed European and UK financial companies.

**Launch date:** 11 December 2000

**Fund size:** £23.7m

## Fund manager's comments

The net asset value of the New Star Financial Opportunities Fund fell 13.6% in January. This was broadly in line with the net exposure to the market with the Dow Jones STOXX 600 Financials Index falling 11.6%, as equity markets fell sharply on the back of a raft of disappointing trading statements and weak economic news. The US Federal Reserve responded to the deteriorating economic situation by cutting its US interest rates by 1.25 percentage points to 3%.

These falls were compounded by concerns that banks would have to take further write-downs, this time against their exposure to monoline bond insurers following fears that a number had insufficient capital. Société Générale also contributed to this volatility following revelations that on top of €2.0 billion in write-downs for its exposure to US sub-prime mortgages and monoline insurers it had lost €4.9 billion in the unwinding of allegedly unauthorised derivatives positions in European equity indices.

Against this background, some of the Company's best performing holdings in previous months performed poorly, most notably Bank of Piraeus, DnB NOR, Commerzbank and Friends Provident, the latter after a disappointing statement indicating that it would cut its dividend. There were, however, a number of more positive trading statements from portfolio companies including ICAP, which continues to benefit from the high levels of volatility in financial markets, and Wogen, the specialty metals trader.

Investment activity focused on reducing risk as equity markets fell. Trades included selling the Company's holding in Worldspreads Group, the financial spread betting company, in favour of its larger peer, IG Group. New holdings were purchased in Axa and Zurich Financial Services while holdings in London & Associated Properties and BNP Paribas were reduced, the latter on concern that it would make a bid for Société Générale.

Nick Brind, New Star Asset Management Limited

## NAVs and share prices

	Share price	NAV <sup>1</sup>	Dividend yield <sup>2</sup>
Ordinary shares	61.75p	61.87p	7.13%

## Performance

	1 month	3 months	YTD	12 months	Since 31 March 2003 <sup>5</sup>
Ordinary shares price <sup>3</sup>	-7.5%	-11.1%	-7.5%	-14.2%	339.1%
NAV <sup>4</sup>	-13.6%	-20.4%	-13.6%	-23.2%	205.8%
Benchmark Index	-11.6%	-19.6%	-11.6%	-22.3%	68.4%

Prior to 14 December 2007 the index used for comparing performance was the FTSE Financials Index. Since 14 December 2007 this has changed to the DJ STOXX 600 Financials Index.

## Discrete years

	31.12.06 to 31.12.07	31.12.05 to 31.12.06	31.12.04 to 31.12.05	31.12.03 to 31.12.04	31.12.02 to 31.12.03
Ordinary shares NAV performance	-8.5%	32.4%	34.3%	27.0%	34.4%
Benchmark Index	-12.5%	20.6%	17.2%	14.6%	23.3%

## Past performance is not a guide to future returns

Source: New Star Asset Management, Datastream (total return) at 31 January 2008

<sup>1</sup> The NAV per share (i) includes current financial year revenue items and (ii) includes a provision for the issue of 4,236,992 shares held in treasury at the current share price

<sup>2</sup> Yield figures are gross of tax and are not guaranteed

<sup>3</sup> Share prices shown are mid-market prices

<sup>4</sup> As of 31 December 2005, net asset values are calculated using bid prices and prior to then mid prices

<sup>5</sup> 31 March 2003, Nick Brind became fund manager of the New Star Financial Opportunities Fund

## Capital structure

	Number of shares	GB£m 31 January 2008	% of total assets
Ordinary shares in issue <sup>1</sup>	38,132,932	23.7	62.0
Prime Broker credit facility		14.5	38.0
Total assets		38.2	100.0

The ordinary shares are currently geared through credit facilities arranged through Credit Suisse. Prior to 11 December 2007, the Ordinary shares were geared by Zero Dividend Preference shares. <sup>1</sup> Excludes shares held in treasury

## Net sector exposure (% of total assets) at 31 January 2008

Sector	Equities	Fixed income	Total
Banks	17.2%	9.5%	26.7%
General financial	25.3%	5.9%	31.2%
Investment companies	5.3%	3.4%	8.7%
Life assurance	11.0%	0.0%	11.0%
Non-life insurance	12.5%	6.7%	19.2%
Real estate	3.2%	0.0%	3.2%
<b>Total</b>	<b>74.5%</b>	<b>25.5%</b>	<b>100%</b>

Source: New Star Asset Management, Capita Sinclair Henderson Limited, Datastream

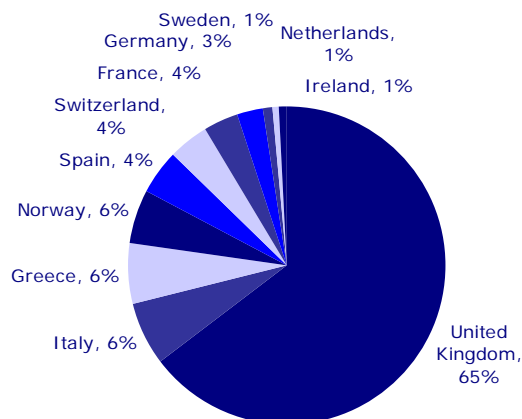




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## Geographical exposure (% of total assets)



## Portfolio exposure

	% of net assets
Long positions	164.9%
Short positions	13.6%
Gross exposure	178.5%
Net exposure	151.3%

	% of net assets
Net equity market exposure of Ordinary shares <sup>1</sup>	107.4%

<sup>1</sup> This represents the equity market exposure for the Ordinary shares taking account of the Company's gearing, short positions and fixed income portfolio exposure.

Largest holdings 1- 10	%
Unicredito Italiano	4.3
DNB NOR	3.8
Aviva	3.6
Chaucer Holdings 8.5% CULS	3.3
Personal Group Holdings	3.1
Legal & General	3.1
Dartmoor Pref	2.9
Man Group	2.9
Banco Bilbao Vizcaya Argentaria	2.5
Liontrust Asset Management	2.3

Largest holdings 11- 20	%
Intesa Sanpaolo 6.25% bond	2.0
PSource Structured Debt	2.0
Davenham Group	2.0
HSBC Holdings	2.0
Brit Insurance 8.5% ULS	1.9
Investec Finance 7.75% Bond	1.9
Santander International 3.375% Bond	1.9
Provident Financial 7.125% Sub Bond	1.9
Bank of Piraeus	1.9
Credit Suisse	1.8

## Glossary

### Asset cover

The extent to which a company's net assets cover its debt obligations and/or preference shares.

### Bid prices

The bid price is the price a buyer is willing to pay for a security. The opposite of the bid is the ask price/offer price, which is the price a seller is looking to get for their shares.

### Gross dividend yield

A financial ratio that shows how much a company pays out in dividends each year relative to its share price. In the absence of any capital gains, the dividend yield is the return on investment for a stock. Dividend yield is calculated as follows: annual dividend per share / price per share.

### Mid prices

The average of the bid price and offer price of a security.

### Ordinary shares

Ordinary share holders have a right to vote at the general meetings and an entitlement to dividends. Ordinary shares rank behind the final entitlement of the zeros and as such offer a geared capital return and carry the risk of complete loss if the total assets fall.

## Fund details

**Directors:** Martyn Chambers (Chairman), George Baird, Christopher Fish, Nigel Taylor, Julian Tregoning.

**Investment manager:** New Star Asset Management Limited. **Tel:** +44 20 7225 9200. **Email:** closedendfunds@newstaram.com.

**Primary listing:** London Stock Exchange.

**Dividend payments:** April, July, October, January **XD:** March, June, September, December.

	<b>Mnemonics</b>	<b>ISIN</b>	<b>Sedol</b>
<b>Ordinary shares:</b>	NST LN	GB0003286837	0328683

## Risk warning

An investment in shares carries substantial risk and is suitable only for financially sophisticated investors capable of evaluating the risks and merits of such an investment and who have sufficient resources to bear any loss (including total loss) which may result from the investment. The value of an investment and the income from it can go down as well as up, it may be affected by exchange rate variations and you may not get back the amount invested. Past performance is not necessarily a guide to future performance. The Ordinary shares may be relatively volatile and market movements may be magnified. The fund invests predominantly in securities of financial companies, some of which are quoted on AIM. Stocks quoted on unregulated markets such as AIM may be regarded as higher risk than those listed on regulated markets. The fund may also invest in non investment grade fixed interest securities which are subject to credit, liquidity and interest rate risks. These stocks have a low credit rating and carry a high degree of risk of default on repayment. Due to the limited asset type that the fund may invest in, the lack of diversification may lead to increased volatility and risk. There is no guarantee that the market price of shares will fully reflect the net asset value of the fund. Please ensure you refer to your financial adviser to understand the full features and risks of this product before investing. The fund is unregulated and investors in New Star Financial Opportunities Fund may not have the right to access the Financial Compensation Scheme or the Financial Ombudsman Scheme. The fund may also use derivatives and gearing which can increase volatility and risk.

