



New Star Financial Opportunities Fund

Newsletter – December 2007

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: £44.8m

Fund manager's comments

The New Star Financial Opportunities Fund's net asset value rose by 2.8% during the month as compared to the FTSE Financials Index which fell by 2.2% and the Dow Jones STOXX 600 Financials Index which rose by 0.2%. Financial stocks fell marginally during the month after an initial rally fizzled out although a sharp fall in sterling resulted in the month being a positive one for the Company.

UBS announced that it would write down its US sub-prime holdings by US\$10 billion at the same time as it was raising 19.4 billion Swiss francs in new capital from the Government of Singapore Investment Corporation and an undisclosed strategic investor from the Middle East. In addition, it proposed that it would replace its cash dividend in 2008 with a stock dividend, further undermining sentiment towards the sector.

The Company's Greek bank holdings performed well over the month, with the share prices of Alpha Bank and Bank of Piraeus both rising because investors perceived that they would continue to be largely unaffected by the credit crisis effecting other European banks. The share price performance of other holdings in the bank sector, such as HBOS and HSBC, were, however, disappointing.

Investment activity was driven by the need to raise sufficient cash to pay those holders of Ordinary shares who had elected for the tender offer and, after taking into account the new credit facilities with Credit Suisse, the repayment of the Zero Dividend Preference shares. The majority of holdings were reduced pro-rata though the decision was taken to sell the holding in Marfin Popular Bank while a new holding was purchased in EFG Eurobank.

Nick Brind, New Star Asset Management Limited

NAVs and share prices

	Share price	NAV ¹	Dividend yield ²
Ordinary shares	66.75p	70.84p	6.59%

Performance

	1 month	3 months	YTD	12 months	Since 31 March 2003 ⁵
Ordinary shares price ³	2.7%	-2.1%	-3.8%	-3.8%	374.6%
NAV ⁴	2.8%	-5.1%	-8.5%	-8.5%	254.1%
Benchmark Index	-0.7%	-6.3%	-12.5%	-12.5%	90.6%

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 December 2007

¹ 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

² Yield figures are gross of tax and are not guaranteed

³ Share prices shown are mid-market prices

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

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

Capital structure

	Number of shares	GB£m 31 December 2007	% of total assets
Ordinary shares in issue ¹	38,132,932	27.5	61.4
Net borrowings		17.3	38.6
Total assets		44.8	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.

¹ Excludes shares held in treasury

Market exposure

	% of net assets
Long position	163.9%
Short position	17.2%
Gross exposure	181.1%
Net exposure	146.7%
Equity exposure	108.0%

Asset Allocation (% of total assets) at 31 December 2007

Sector	Equities	Fixed income	Total
Banks	32.7%	8.8%	41.5%
General financial	21.6%	6.1%	27.7%
Investment companies	5.1%	2.9%	8.0%
Life assurance	9.3%	0.4%	9.7%
Non-life insurance	5.9%	4.8%	10.7%
Real estate	2.4%	0.0%	2.4%
Total	77.0%	23.0%	100%

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

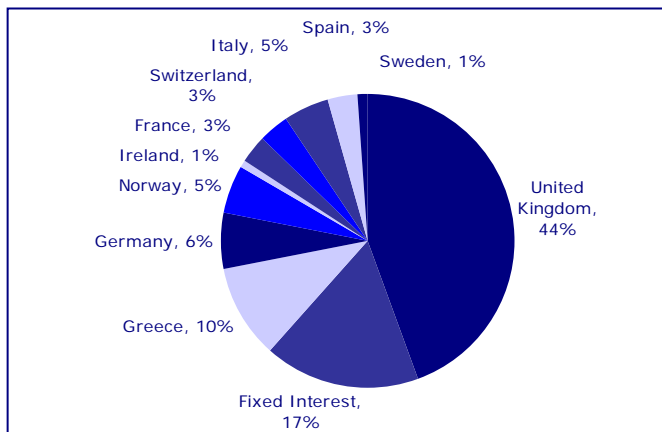




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Geographical exposure (% of total assets)



Largest holdings 1- 10	%
Unicredito Italiano	4.6
DNB NOR	4.3
Aviva	3.6
Legal and General	2.9
Chaucer Holdings 8.5% CULS	2.9
Commerzbank	2.8
Fortis 8.75% MCS	2.8
Deutsche Boerse	2.8
Banco Bilbao Vizcaya Argentaria	2.7
Personal Group Holdings	2.6

Largest holdings 11- 20	%
Man Group	2.5
Dartmoor Pref	2.5
Credit Suisse	2.4
EFG Eurobank Ergasias	2.4
Liontrust Asset Management	2.2
Hellenic Exchanges	2.1
BNP Paribas	2.1
Bank of Pireaus	2.0
Davenham Group	2.0
HSBC Holdings	1.9

Largest holdings 21- 30	%
Friends Provident	1.8
PSource Structured Debt	1.7
Investec Finance 7.75% Bond	1.7
Brit Insurance 8.5% ULS	1.7
ICAP	1.6
New Star Asset Management	1.6
Provident Financial 7.25% Sub Bond	1.6
Kensington Group 9% Bond	1.5
Financials 10.0% WOP Basket	1.4
Barclays WOC 10.05% Index Note	1.3

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.

Ordinary shares:	Mnemonics	ISIN	Sedol
	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.

