



New Star Financial Opportunities Fund

Newsletter – May 2007

Investment strategy: The policy of the Company is to provide Ordinary Shareholders with a high income and the opportunity for income and capital growth and to provide Zero Dividend Preference Shareholders with a predetermined final capital entitlement. This is to be achieved by investing in securities of financial companies, the majority of which will be listed on a Recognised Investment Exchange.

Launch date: 11 December 2000

Fund size: £95.0m

Fund manager's comments

Against the background of a less benign outlook for interest rates, the net asset value of the Company's Ordinary shares rose only marginally during May. Financial stocks made little headway as investors took a more negative view on the prospects for the sector despite the recent increased merger and acquisition speculation following the competing bids for ABN-Amro.

Recent performance has benefited from having reduced or disposed of a number of stocks that had performed well, which have since performed poorly. These include Kensington Group, the non-standard mortgage lender, Intermediate Capital Group, the specialist mezzanine lender and fund management company and Royal Bank of Scotland.

A holding in the ordinary shares of Kensington Group were sold in February following speculation that it had put itself up for sale. Its shares have since fallen sharply only stabilising recently following the announcement that it had agreed to be taken over by Investec. The Company continues to hold the subordinated bonds of Kensington which have performed extremely well.

The Company's holding in Intermediate Capital Group was also sold back in February following a very strong performance in its shares. Its share price fell, however, following the announcement of its final results in which it warned that conditions remained challenging in its market and that it was turning down many more opportunities to lend to companies because of concern that "risk is not being recognised or properly priced".

Nick Brind, New Star Asset Management Limited

NAVs and share prices

	Ordinary	Zero
Share price ¹	83.38p	162.00p
NAV ²	89.41p	161.22p
Gross dividend yield ³	5.04%	n/a

Performance

	1 month	3 months	YTD	12 months	Since 31 March 2003 ⁴
Ordinary shares price ¹	3.6%	7.4%	14.3%	35.2%	465.6%
NAV ²	0.2%	6.0%	8.3%	31.7%	311.0%
FTSE Financials Index	0.8%	4.6%	2.6%	18.6%	123.4%

Discrete years

	31.03.06 to 31.03.07	31.03.05 to 31.03.06	31.03.04 to 31.03.05	31.03.03 to 31.03.04
Ordinary shares NAV performance	12.6%	74.9%	15.8%	72.4%
FTSE Financials Index	8.0%	31.1%	13.7%	35.1%

Past performance is not a guide to future returns

Source: New Star Asset Management, Bloomberg, Datastream (total return) at 31 May 2007

¹ Share prices shown are mid-market prices

² As of the 31 December 2005, net asset values are calculated using bid prices and prior to then mid prices

³ Yield figures are gross of tax and are not guaranteed

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

Capital structure

	Number of shares	GB£m 31 May 2007
Ordinary shares in issue	61,500,000	55.2
Zero dividend preference shares in issue (issued by NSF Securities Ltd)	24,675,000	39.8
Total assets		95.0
Asset cover for Zeros final entitlement of GB£41.6m		2.3 times

Zero dividend preference shareholders will be repaid 168.48p per share on 11 December 2007

Portfolio composition (%) at 31 May 2007

Sector	Equities	Fixed income	Total
Banks	37.3%	4.0%	41.3%
General financial	17.2%	3.9%	21.1%
Investment companies	2.9%	1.3%	4.2%
Life assurance	9.1%	0.4%	9.5%
Non-life insurance	3.2%	4.9%	8.1%
Real estate	3.1%	0.0%	3.1%
Cash	-	-	12.6%
Total	72.8%	14.5%	100%

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

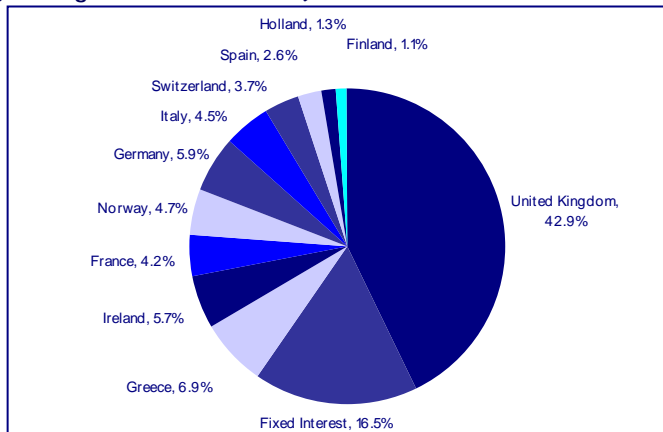




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Geographical asset allocation (% of total assets) (Re-weighted to exclude cash)



Largest holdings 1- 10	%
Anglo Irish Bank Corp	4.2
New Star Asset Management Group	4.1
Resolution	3.3
Credit Suisse Group	3.2
BNP Paribas	2.9
Commerzbank	2.9
Unicredito Italiano	2.7
Aviva	2.7
DnB NOR	2.7
HBOS	2.6

Largest holdings 11- 20	%
Banco Bilbao Vizcaya Argentaria	2.3
Man Group	2.2
Royal Bank of Scotland	2.0
Alpha Bank	1.9
Personal Group Holdings	1.7
Liontrust Asset Management	1.6
Chaucer Holdings 8.5% CULS	1.4
National Bank of Greece	1.3
Integrated Asset Management CULS	1.3
Deutsche Boerse	1.3

Largest holdings 21- 30	%
Bank of Piraeus	1.2
Banca Popolare Italiana	1.2
ABN Amro	1.2
Legal & General	1.1
DnB NOR 14% RCB	1.1
Hellenic Exchanges	1.1
Dartmoor Pref	1.1
Deutsche Bank	1.0
London and Associated Properties	1.0
Kensington Group	1.0

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.

Zero dividend preference shares (zeros)

Zeros have no right to receive a dividend but are entitled to a fixed sum of 168.48p per share on 11 December 2007.

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

	Mnemonics	ISIN	Sedol
Ordinary shares:	NST LN	GB0003286837	0328683
Zeros:	NSF LN	GB0030766884	3076688

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. There is no guarantee that zero dividend preference shares (zeros) will receive the final entitlement of 168.48p on 11 December 2007. The ordinary shares may be relatively volatile and market movements may be magnified. Ordinary shareholders should note that after the redemption of the zero shares the value of assets attributed to ordinary shareholders may be less than their original investment. 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.

