July 2009

Strategy focus—Asia-Pacific equities

The Newton Asia-Pacific equity strategy aims to generate capital growth from a focused portfolio of high-quality stocks in the Asia-Pacific (ex Japan) region. In this article, we explain how the strategy works, why opportunities for investment in the region are particularly attractive and how we exploit our investment themes to identify those opportunities.

How the strategy works

The strategy invests to achieve capital growth from a high-conviction portfolio of (typically between 45 and 65) equities in the Asia-Pacific (ex Japan) region. Our approach to investment in Asian equities, as with all our regional equity strategies, is focused upon 'bottom up' stock selection. Industry and country weightings are formed generally by stock-specific considerations.

The thematic research of our global industrial career analysts is a critical element in our selection of stocks in the strategy. Our themes provide long-term perspective on global financial markets and economies, and we work with our research analysts to identify the beneficiaries of those themes. There is no shortage of information in the modern world, but information without perspective is of limited value. Perspective is a defining feature of our approach to investing in Asia-Pacific equities, as it is across all strategies at Newton. It helps us to anticipate changes in the region and in the wider world and it directs us towards profitable investment opportunities as well as to areas of risk.

In essence, we invest in companies in the region that have the appropriate qualities to be leaders in their respective fields. In identifying such companies, we put great store by our meetings with their managers. On average, our Asia-Pacific portfolio managers have more than 400 meetings with companies each year (roughly half of them in London and half 'on the ground' across the Asia-Pacific region) and these meetings are critical to our confidence in the merits of the companies in which we invest. Standards of corporate governance have improved markedly in Asia in recent years, but they are not as rigorous as in the US and Europe, and investors may enjoy fewer safeguards than they do in those other regions. This makes getting to know a company's management a critical element in the due diligence of investment opportunities.

We monitor portfolio holdings constantly to ensure that they continue to be attractive on thematic, operational and valuation grounds, but when we buy stocks we do so typically with a view to holding them for about three years. The strategy is focused upon 'long only' investment in equities. It does not use gearing, hedging or derivatives.

The attractions of the Asia-Pacific region

Our global, thematic approach is adept identifying investment opportunities around the world, and we believe there is particular appeal in the growth potential of the Asia-Pacific region. In the years ahead, investors should benefit from the secular growth in demand across Asia (driven in large measure by urbanization, the growth of workforces and the enlargement of the 'consuming class'), from strong productivity growth and from the entrepreneurial nature of many Asian companies.

In portfolios, we seek to take advantage of Asia's growth potential via investment both in developed countries with exposure to the region's growth, such as Australia, New Zealand and Singapore, and in developing countries such as China, Taiwan and Korea.

With some exceptions, the political stability of the Asia-Pacific region should also be favorable to the development of financial markets and to the fortunes of equity investors. The recent improvement in relations between China and Taiwan is particularly encouraging.

Notwithstanding the near-term challenges presented by ailing global credit markets and economies, Asian companies should benefit over the longer term from the relative strength of their balance sheets (with corporate indebtedness significantly lower in Asia than in the US and Europe). Equity investors, in turn, should benefit too from the increasing proportion of earnings that Asian companies are paying out in dividends to their shareholders.

Performance

For illustrative purposes, we show below the largest stock, sector and country positions of the UK, sterling based strategy.[1]

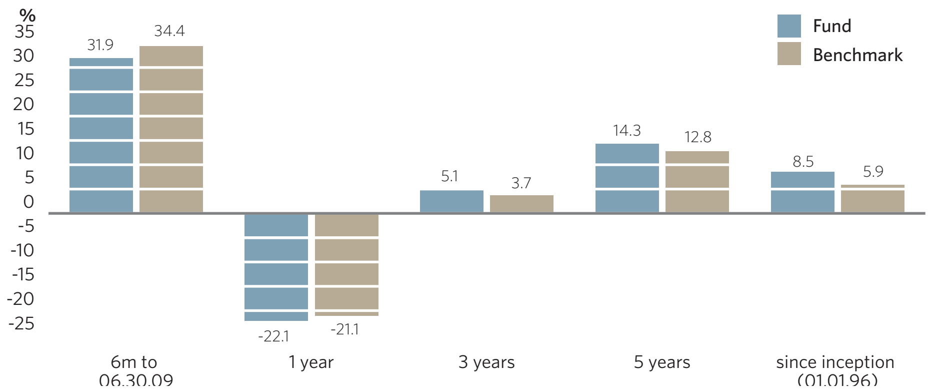
Largest stock positions	% as at 06.30.09
Noble Group	7.0
Santos	6.2
BHP Billiton	4.7
Belle International	4.3
Hengan International	4.0

Largest sector positions	% as at 06.30.09
Oil & gas producers	18.6
Mining	9.4
General industrials	8.5
Mobile telecommunications	8.4
Banks	7.4

Largest country positions	% as at 06.30.09
Australia	30.1
Hong Kong	20.8
Singapore	14.4
Taiwan	8.8
UK	8.8

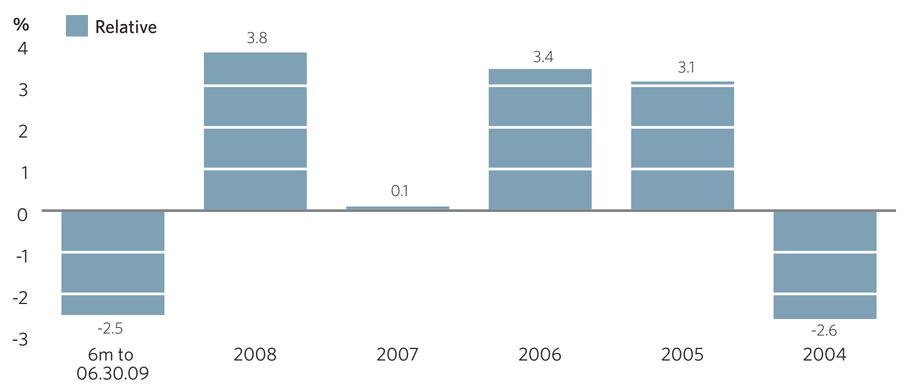
1. All portfolio statistics based on holdings of the Newton Oriental Stratgey; portfolio recommendations are subject to change at any time without notice and should not be construed as investment recommendations.

CHART 3. NEWTON ASIA-PACIFIC EQUITY (UK, STERLING-BASED) COMPOSITE V FTSE AW ASIA PACIFIC EX JAPAN, ANNUALISED PERFORMANCE IN USD TERMS, GROSS OF FEES



Sources: Newton, Thomson Reuters Datastream, July 2009.

CHART 4. NEWTON ASIA-PACIFIC EQUITY (UK, STERLING-BASED) COMPOSITE V FTSE AW ASIA PACIFIC EX JAPAN, CALENDAR-YEAR RELATIVE PERFORMANCE IN USD TERMS, GROSS OF FEES



Sources: Newton, Thomson Reuters Datastream, July 2009.

Identifying opportunities through themes

Our themes change over time as we seek to anticipate the factors that will drive the prospects of economies, markets and companies. At present, we are exploiting a number of themes in portfolios. Among them are:

All Change!

The bursting of the credit bubble has marked an end to the era of rapid growth in developed-world debt. At the same time, heightened volatility in financial markets has heralded an end to the benign period of stable growth which allowed financial leverage to grow to unsustainable levels. The theme underscores the rationale for our underweighting of banks in Asian equity portfolios and leads us also to favor stocks with 'defensive' earnings and sound balance sheets (such as Hengan, China's largest tissue paper manufacturer, and Woolworths, an Australasian supermarket operator).

Demographic changes in Asia, in particular the growth of the middle class and the ageing of populations in some countries, have profound implications for demand for a range of products and services (including education, healthcare and finance). The implications of such changes lead us to hold, for example, a Singaporean education stock (Raffles), China's largest medical consumables company (Shandong Weigao), an Indian hospital operator (Apollo Hospitals) and HDFC, India's largest mortgage provider.

Tightness in hydrocarbon supply, the slow progress of 'alternative' technology, and growth in energy usage in the developing world, have led to forecasts of a growing energy 'gap'. Energy prices should be well supported in future, with significant implications across other sectors and economies, particularly in the light of measures to tackle climate change. In relation to this theme, we hold a broad range of energy-related companies in Asian equity portfolios. Among them are Santos, Australia's largest onshore oil and gas producer, CNOOC, China's exploration and production company, and Keppel Corp, a Singaporean builder of oil rigs.

Networks have already transformed people's lives, but there is great scope for further expansion. Rapid increases in bandwidth continue to increase networks' potential and drive productivity gains. The explosive growth of mobile internet, among other developments, will generate profound changes in many industries. To this end, we hold a number of mobile telecommunications companies across Asia, as well as TSMC (the Taiwanese semiconductor manufacturer) and HTC (which makes smartphones).

Although average global inflation is still at the lower end of historic ranges, low inflation is no longer a universal phenomenon. Rising food and energy prices have caused distinct 'hotspots' in fast-growing economies in recent years; and authorities' efforts around the world to ease economic and credit-market conditions may have inflation consequences. To protect against the debasement of paper money and financial-market volatility, we hold a large proportion of companies with exposure to 'real' assets (such as gold mining companies) to protect clients' wealth.

Significant infrastructure spending is taking place in Asia, not least by China in its attempts to support the growth of its economy. In seeking to take advantage of this trend, we hold NWS Holdings, for example, a Chinese company which is well-placed to benefit from such spending via its exposure to the development of road, power, water and port infrastructure.

Investment team

Our Asia-Pacific equity strategy is managed by our Asian equity team and is supported by our career global industry analysts and the wider investment team. The strategy draws on the Asia-Pacific equity model as well as the research recommended lists that our analysts compile. Jason Pidcock is lead manager of the strategy and Ewan Markson-Brown is alternate manager.

How to invest

The strategy is available either via a commingled, bank-collective arrangement or, for larger portfolios, via a separate account.

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