

Newton Webcast Filming
Jason Pidcock – Newton Asian Income
31/3/11

Time Code	Transcription
00:00:00	<p>Hello my name is Jason Pidcock. I am going to be talking to you about Newton's Asian income strategy. The objective of this strategy is to combine income together with capital growth. We run quite a concentrated portfolio of between forty and fifty stocks, put together using a thematic approach, taking a long term time horizon (typically three years or more) and using quite a strict yield discipline. The yield discipline is in the same spirit as the other equity income strategies run by Newton: with this one, every stock that we buy at the point of purchase must yield at least as much as the index. The index that we use is the FTSE All World Asia Pacific ex-Japan Index. Once we own a stock, to give it a bit of flexibility, we can continue to hold it unless the yield falls to 15% discount. If that occurs we will endeavour to sell out of that holding. On top of this, this strategy as a whole must yield at least 35% more than the index. We're investing in companies in the Asia Pacific ex-Japan region and we believe that this is a very good part of the world for this type of strategy. We can combine income with capital gain. This is a high-growth part of the world.</p> <p>We do believe that dividends help discipline management and can lead to better capital management of companies. There is a wide choice as the pie charts show: between 1995 and 2010 there was a large increase in the number of stocks yielding over 3%, and in fact, by 2010, the proportion of Asia Pacific ex-Japan companies as a share of companies globally yielding above 3% had risen from 16% to 26%, the highest regional share in the world, therefore giving us more choice in Asia Pacific ex-Japan than anywhere else. We can also see that the payout ratio has now been above 40% for the last ten years, proving that Asia Pacific corporates are committed to their dividends. This is roughly in line with western Europe. In 2009 the payout ratio did jump up and this was because a number of companies maintained their dividend at a flat level, based off 2008 earnings, even though earnings that year had declined slightly. This was because they took the view that the EPS [earnings per share] decline was temporary and they had strong balance sheets. We thought that the payout ratio would revert to the mean during 2010 and that is exactly what has happened, and now it appears that we have plateaued at a medium-term average level of about 43%. So this means that companies are paying out 43% of net earnings and retaining 57% for investment, which we believe is a reasonable balance in a region where debt levels are relatively low, and balance sheets are relatively strong.</p> <p>We have a very large team of people covering this region looking for ideas, three of us are dedicated to looking at Asia Pacific ex-Japan solely and we work very closely in conjunction with our research team. We have over twenty global</p>

sector analysts and also we work very closely with our global equity fund managers. When corporates come in to meet us we will often have five or six people meeting that company: the relevant analyst, those that are on the desk and any of the global fund managers that are interested. All these teams send people out into the region on a regular basis to meet corporates in their own place of business, and we believe that we are very good at collecting information from a number of sources on a daily basis from companies themselves, from external analysts, strategists and economists. We can use all of this information together with our thematic process to build up a nice collection of stocks. The thematic process helps us because we have identified themes that signal changes occurring in the world, and these can steer us towards particular sectors, particular companies, but also remind us of the questions to ask companies when we're meeting them. There is a lot of internal debate and discussion about where we should have overweight and underweight positions and which companies suit the strategy best. So after we have had all of this discussion, a portfolio is put together which is fairly concentrated but where we believe we have endeavoured to find best in class high quality type companies, which will perform over a medium-term period. Typically we take three years or even more time horizon. So I hope you have found this very useful. We believe our process works. Thank you very much.

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