Monthly Manager Commentary
Newton Asian Income Fund

December 2007

STANDARD &POOR'S A

For Professional Investors Only

Jason Pidcock

Newton Asian Income Fund Commentary **December 2007**

Economic and market developments

It was a volatile end to the year for global equity markets. After November's sharp correction, markets recovered slightly as renewed expectations of a Fed rate cut injected optimism into the markets. Nevertheless, sentiment soon turned sour despite better than expected employment figures, with concerns about inflation and prospects for further rate cuts. Several attempts were made by some of the world's central banks to provide greater liquidity to stabilise the market. However, in China we saw the reverse, as the PBOC (People's Bank of China) tightened liquidity further, firstly by raising the reserve ratio requirement by a whole percentage point to 14.5%, and then raising interest rates once again. China has raised interest rates six times in 2007 and raised the reserve ratio ten times. Overall, the best performing markets were Malaysia, Singapore and India. The worst performing market in the region for the month, and indeed for the year as a whole, was Taiwan, which aside from having a highly geared economy to the US consumer, was rocked by political noise, capital outflows, and changes in corporate tax and labour laws in China. Elsewhere, the credit crunch took its toll on debt refinancing for some leveraged vehicles such as Centro Properties in Australia. The shares plunged 76% in one day. With the large US banks reporting more and more write downs stemming from the US sub-prime mortgage crisis, the Chinese, flush with dollars thanks to their massive exports, came to the rescue of struggling companies, snapping up stakes in Morgan Stanley, Fortis Bank, Bear Stearns, Blackstone, Barclays and Standard Bank. On the political front, there were elections in Korea where Lee Myung Bak of the Grand National Party won a landslide victory. We also had elections in Thailand, where the PPP Party won the most seats. The assassination of Benazir Bhutto in Pakistan right at the end of the year had a negative effect on the country's markets and also helped the oil price end the year on a firm note. Elections in Pakistan have been put back to 18th February 2008.

Fund performance

The Fund performed well against a volatile backdrop, with defensive positions holding up returns. A higher weighting in South East Asian markets also contributed to outperformance. **Gamuda**, the Fund's largest holding, with infrastructure exposure to the Malaysia, Vietnam and the Middle East won a RM12.5bn government rail contract in Malaysia. Other steady cash cow companies such as **Telstra** and **Taiwan Mobile** helped the Fund to withstand the market's erratic movements.

Fund activity

Activity was limited this month to increasing the position in **Parkway** and **Hopewell Highway**, while trimming **Advanced Info Services** of Thailand and Australia, and **New Zealand Banking Corp**.

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Outlook

Looking ahead, we expect markets to continue to exhibit high levels of volatility. Risks to the global economy look to be skewed to the downside and we see many challenges ahead for 2008. More restrictive liquidity conditions, higher energy prices and a slowing US economy will play a key part in moderating global growth. Although the environment remains challenging for Asia, we feel that the slowdown emerging from the developed world shouldn’t dampen the structural Asian growth story, which is supported by solid fundamentals. Asian company earnings growth continues to be well underpinned by a growing domestic economy, fuelled by urbanisation and industrialisation. At the consumer level, savings rates are high and incomes are rising, while at the country level, current account surpluses and foreign exchange reserves provide a substantial buffer, and at the corporate level, gearing ratios have been brought down significantly with many companies now sitting on net cash balances. However, against an uncertain global macroeconomic backdrop, we shall continue to focus our attention on Asian domestic demand companies with strong cash flows and cash balances. We feel these companies should be more insulated from the effects of a weaker global economy, but at the same time benefiting from structural long-term growth trends, and appreciating currencies.

J Pidcock, December 2007

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