



# Monthly Manager Commentary Newton Asian Income Fund

February 2008



For Professional Investors Only



Jason Pidcock

Newton Asian Income Fund Commentary

February 2008

## Economic and market developments

Volatility levels remained high in February. Oil prices climbed back up to the US\$100/barrel level and commodity prices remained high, driven by supply side issues. That said, this month's economic data from the US spelled a recessionary outlook and slowing global growth. With US interest rates falling and inflationary risks rising, Asian countries have had little choice but to allow their currencies to strengthen. The latest inflation figures from China came in at a 10-year high, increasing by 7.1% year on year, exacerbated by the country's recent adverse weather conditions. Other countries to report accelerating inflation figures include Singapore, Australia, Vietnam, Pakistan and Thailand. The pressure for Asian countries to ease monetary policy in the face of cooling US growth is intense, however, in stark contrast to the West, Asian governments are more focused on fighting inflation than they are concerned about growth. By allowing currencies to appreciate to offset inflationary pressures, sterling-based and dollar-based investors will benefit. Currency gains helped boost returns for the best performing markets of Thailand, Taiwan and Korea this month. Worst performing markets were India, Australia and the Philippines.

## Fund performance

The Fund's Australian exposure hurt performance as names such as **FKP Properties**, Australia's largest operator of retirement villages, and **QBE Insurance** suffered declines after reporting weaker-than-expected earnings. However, **Telstra Corp** proved to be a defensive yield play in this volatile environment. Elsewhere **Simplo** of Taiwan enjoyed a strong rebound after a strong earnings season, but these gains were offset by **Gamuda** in Malaysia. The shares were sold down aggressively after the Chairman reduced his stake in the company.

## Fund activity

We sold out of **Parkway**, which announced it would be acquiring a piece of land to develop its fourth hospital in Singapore. Although we still favour the company for its longer term growth prospects, **Parkway's** ability to pay dividends will be compromised by the transaction, forcing us to sell. We continued to sell down financials, exiting positions in Australia and **New Zealand Banking Corporation** and **Maybank**. The proceeds were used to fund the purchase of **PT Inco**, an Indonesian nickel company which trades at attractive valuations with a high prospective yield, and positions in **LG Telecom** and The **Link Reit** were increased.



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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. Asian markets have also suffered from these global financial and economic concerns, despite having very different macro and micro fundamentals. We believe that risk-reward metrics look very favourable from here with many long term opportunities available. In countries across Asia, capital investment, infrastructure spending and domestic consumption are still in the early stages of their cycle. Currency returns and dividend yields are another attraction of Asian equity markets.

J Pidcock, February 2008



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