



Monthly Manager Commentary Newton Asian Income Fund



Jason Pidcock

November 2007



For Professional Investors Only

Newton Asian Income Fund Commentary

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Economic and market developments

Investors turned cautious in November, as the fragility of the US economy remained at the forefront of their minds after the US Federal Reserve cut its growth forecast due to credit and housing market concerns. Further losses were unveiled from the credit crunch and liquidity conditions began to freeze once more. Meanwhile, oil prices soared to a record high just short of the US\$100/barrel mark, and the yen strengthened considerably over the period. Against this backdrop, the Asia Pacific region gave up some of its strong year to date gains, posting negative returns. The delay of the program allowing Chinese investors to trade directly in Hong Kong stocks left sentiment towards China noticeably weaker. Even 'hot' China IPO's lost their appeal, such as Sinotruk which on its first day of listing with a return of -16%. Macroeconomic policy measures remained unfavourable with China raising the reserve requirement ratio once again to 13.5% from 13% after inflation grew 6.5% year on year, driven by higher food prices, which accounts for one third of CPI. Monetary policy remained on the tightening trend in other parts of the region, as India raised its cash reserve ratio by 50 basis points to 7.5%, whilst Australia raised interest rates by 25 basis points to 6.75%. The country also elected a new government, with Prime Minister Kevin Rudd at the helm. Worst performing were the domestic Chinese markets, followed by Taiwan where high exposure to US consumer goods saw the market be sold down aggressively. Markets in South East Asia outperformed as they are more insulated by private domestic consumption than their North Asian counterparts. Towards the end of the month, markets grew more optimistic after signs that the US Federal Reserve would cut interest rates at their next meeting.

Fund performance

The Fund outperformed its peers in this environment thanks to its more defensive income strategy, underweighting higher valuation and lower yielding markets such as China, which saw a heavy correction over the month. A higher weighting in South East Asian markets also contributed to outperformance. Steady cash cow companies such as **Taiwan Mobile**, **ST Engineering** and **Maybank** were not sold down with the rest of the market, and helped the Fund to achieve a top quartile position.

Fund activity

Fund activity was limited this month. We increased our exposure to the energy segment via adding to our position in **Santos**, an oil and gas exploration and production company in Australia. In Hong Kong, we purchased **The Link Reit**, which has a wide portfolio of retail assets in Hong Kong, which we believe has the most gearing towards upward rental reversions. This will benefit its shareholders given the Reit's dividend distribution policy. These purchases were funded through top slicing of positions such as **Taiwan Mobile** and **Maybank**.



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Outlook

Risks to the US economy look to be skewed to the downside and we see many challenges ahead for 2008. We do not subscribe to the view that Asia has fully 'decoupled' from the US, and hence we see risks emerging from this. However, the greatest risk to the region lies in higher oil prices in the long term, given our house view on the structural shortage in the supply of oil. This is a risk factor that will face all economies worldwide, and is not Asia-specific. Furthermore, we believe that Asian fundamentals remain strong versus countries elsewhere – cash positions at Asian companies are high, earnings growth across the board is still on track with little evidence of deteriorating profit margins. We feel more comfortable with the position of the markets after November's correction, with the excesses having been removed, and we believe the Fund is well positioned to capture Asia's best growth stories. In the short to medium term however, continued market volatility is to be expected, with heightened concerns about the contractionary effects of tightened lending standards and the deteriorating US housing market. We will continue to be underweight in markets that are most adversely impacted by oil price spikes such as Korea, and continue to focus on domestic demand plays with healthy cash balances accompanied by strong earnings growth. Over the long term, we see little reason why the Asian bull market cannot continue its course given reasonable valuations and earnings growth momentum.

J Pidcock, November 2007



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CP1117-13-12-2007



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