



Monthly Manager Commentary Newton Asian Income Fund

October 2007



For Professional Investors Only



Jason Pidcock

Newton Asian Income Fund Commentary

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Economic and market developments

Those expecting the usual Asian correction in October would have been disappointed after the further leg-up that Asian equity markets received in the month. Record highs were reached once more, fuelled by expectations of an interest rate cut from the US Federal Reserve, despite the persistent gains in oil prices. Hong Kong, China, India and Indonesia were among the strongest markets in Asia, while Singapore, Taiwan and Australia underperformed. China continued to benefit from capital inflows and earnings growth momentum, especially within the banking sector. The Indian market recovered rapidly from a fall in the middle of the month, sparked by plans from the Securities and Exchange Board of India to curb heavy foreign purchases of the market through limiting purchases via so-called P-Notes (participatory notes). Later, the central bank increased the reserve ratio for banks by half a point to 7.5% – the fourth such move this year in another attempt to curb liquidity. China again announced strong GDP growth figures of 11.5%, and inflation figures of 6.2% in September, down from 6.5% in August. In the Philippines, interest rates were cut by 25 basis points to 5.75%. Meanwhile, the renminbi appreciation accelerated over the month to 7.4650 Chinese yuan to the US dollar.

Fund performance

As an income fund, performance lagged the wider peer group over the month owing to a lower weighting in higher valuation and lower yielding markets such as China and India, which continue to outperform other markets in the region. Our holdings in China did particularly well once more – **CNOOC** continued to post gains as a pure play on oil prices, while **NWS Holdings**, the services, infrastructure and ports company in China soared by over 60%. As yet we are unaware of any material change in company fundamentals, but believe that the underperformance of the stock relative to other China plays is being discounted. In Taiwan, the Fund benefited from the performance of technology holdings **High Tech Computer**, **Compal Electronics** and **Lite-On Technology**, all of which were driven by better than expected results. In Australia, the Fund saw steady returns from the holding in **Woolworths** as investors continue to ascribe premium valuations to the stock for solid execution by management. Elsewhere, **Singapore Petroleum** delivered yet another strong set of earnings, which was positively reflected in the share price. In terms of negative contributors, **Daishin Securities** shares plunged on the anticipation of a value dilutive GDR offering.

Fund activity

Fund activity was limited over the month. We took advantage of a placement in shares of **Dore Holdings**, a casino junket operator in Macau with a high dividend yield. In Korea, we reduced the position in **Daishin Securities** which announced that it would be carrying out a GDR offering which would be dilutive to shareholder value. Elsewhere, we reduced the Fund's positions **Woolworths**, **Public Bank** and **CNOOC**, taking profits in the process.



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Outlook

The extent of the outperformance by Asian equity markets year to date, with gains of close to 50% in US dollar terms, has taken us by surprise despite our optimism that the region remains best placed for long term equity outperformance. We are also surprised by the extent of the recovery that markets across the globe have enjoyed since the credit crunch, and by how little attention is being paid to structurally higher oil prices – which we believe will pose serious risks to global economic and political stability in the long run. In the short to medium term market corrections are 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 Thailand, and continue to focus on domestic demand plays with healthy cash balances accompanied by strong earnings growth. However, at the same time, we see little reason why the Asian bull market cannot continue its course given reasonable valuations, favourable monetary conditions, and earnings growth momentum.

J Pidcock, October 2007



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