



Monthly Manager Commentary Newton Asian Income Fund

September 2007



For Professional Investors Only



Jason Pidcock

Newton Asian Income Fund Commentary

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Economic and market developments

Strong gains were posted in Asian markets over the month of September following the global financial turmoil in August. Markets in the Asia Pacific region recovered to close firmly above the previous highs reached in July. The cut in the US Federal Reserve interest rate in the second half of the month helped to lift equity markets globally, although Asia did considerably better, driven by Hong Kong/China and India. Hong Kong shares were given the added impetus on expectation of QDII (Qualified Domestic Institutional Investor) and upcoming A-share listings. The worst performing markets, however, were Malaysia, Korea and Australia. In China, inflation was up 6.5% in August, and the authorities took steps to tighten monetary policy once more, raising the reserve ratio requirement again to 12.5%, and increasing the deposit and lending interest rates for the fifth time this year by 27 basis points to 3.87% and 7.29% respectively. Elsewhere, Australian second quarter 2007 GDP growth came in stronger than expected. In South East Asia, we saw political unrest escalating in Myanmar, although we expect the impacts of this to be contained.

Fund performance

Overall, Fund performance lagged behind its peers given the Fund's greater tilt towards Australia and South East Asian markets, which underperformed against the strong performance of markets in Hong Kong and China. On the positive side, the Fund benefited from several strong movers in September. **Gamuda** – one of the Fund's largest holdings, posted strong gains after higher growth prospects in construction earnings and from its Vietnamese property development projects. **Jiangsu Expressway** provided superior defensive growth qualities, posting a gain of over 20% for the month, and **Sky City Entertainment** shares soared after it said that an interested party had approached them. Newly purchased **China Properties**, a developer of commercial and residential property in prime locations in Shanghai and Beijing surged by over 30% after the company announced the acquisition of more development sites. Despite the price gain, the company still trades at a steep discount to **NAV**. However, the Fund suffered declines in **China Reef Reit**, after the company announced a shortfall in rent – an amount which was later covered by the sponsoring vendor. Meanwhile, **CNOOC** of China surged by over 40% on the back of stronger oil prices and a potential A-share listing.

Fund activity

Siam Commercial Bank was sold as we see higher risks emerging for Thailand from rising oil prices. We disposed of **Phoenixtec Power** where we saw limited growth opportunities. Elsewhere, in Taiwan we completed the sale of **Acer**, and in Singapore we sold **United Overseas Bank** as a move to further reduce the weighting in financials. Purchases included adding to positions in recently acquired **Parkway Life Reit**, the property investment vehicle for Parkway's hospitals, as well as **Macquarie Korea Infrastructure** and **Pico Far East Holdings**.



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Outlook

Going forward, we expect markets to continue to exhibit high levels of volatility. Our concerns lie with the overleveraged US consumer and an overleveraged financial sector, which has been driven by the low cost of borrowing until now. As a result of globalization, Asia will not be isolated from the problems originating in the US. However, we believe that Asia remains much better positioned than the West, given that Asia has already undergone its period of de-leveraging following the Asian crisis 10 years ago. Asian economies have strengthened considerably and are now more resilient to external shocks. Corporate gearing ratios have been brought down significantly, with many companies in a net cash position. 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. 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. These should be more insulated from the effects of a weaker global economy.

J Pidcock, September 2007



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