



Monthly Manager Commentary Newton Global Higher Income Fund

February 2008



James Harries

For Professional Investors Only

Newton Global Higher Fund Commentary

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Economic and market developments

Although the Fund performed well in February as the broader global equity market managed to neither rise nor fall but reward index investors with a neat 0% return. Consistent with our expectations, economic data in the US, including those metrics relating to economic activity, sentiment, housing and the labour market look increasingly weak despite the monetary and fiscal policy responses from the relevant authorities. In the UK many of the same problems exist albeit with a lag but with authorities less able to produce similar stimulus to avert a slowdown in economic growth owing to the fact that the UK economy is more open and will therefore import inflation as sterling weakens.

Elsewhere activity remains robust to the surprise of many. Decoupling, or less contentiously perhaps, divergent growth between the US and UK and elsewhere, remains a reality. As might be expected with such economic dynamism inflation remains a key concern in many parts of the world. The weak economic outlook in the US leading to a further weakening in the dollar, together with ongoing demand in the developing world for hard and soft commodities, drove prices of these materials sharply higher.

Bad news continued to emanate from the financial system which as yet continues to struggle with the effects of the credit crisis. Little relief was seen in credit or credit derivative markets and banks shares continue to perform poorly despite some dividend increases designed to instill confidence, but which have as yet not achieved this aim.

The European Central Bank kept rates on hold again, but perhaps began to appear more concerned with the downside risks to growth than was previously the case.

Volatility continues to increase and is likely to now be on a structural upward trend. We would remind investors that although this has implications for stock selection and the use of leverage (our becalmed theme), a higher level of volatility is not necessarily inconsistent with acceptable returns from equities. Indeed the latter stages of bull markets (e.g. the late 1980s and 1990s) can often elicit heightened volatility but also strong returns. Meanwhile, the US dollar continues to be weak against all major currencies.

Fund performance

The Fund price as at 29th February 2008 was £1.2937. The Fund has returned 6.21% for the month of February which compares very favourably with a FTSE World Index return of -0.05%. Over the previous 12 months the Fund has returned 15.23% against a benchmark return of 0.59% which takes the return since inception to 38.95% against a benchmark return of 11.11%. All figures in sterling terms.

The Fund is therefore first quartile over one, three and six and 12 months, two years and since inception.

Fund activity

During the month we sold the longstanding holdings in **Petrobras** and **Inmarsat**, both owing to strong performances which compressed the respective yields too far for this Fund. We also sold **Old Mutual** which despite performing poorly represents exposure to the domestic South African economy which we would rather avoid. The proceeds from these sales were used to increase our existing holding in **StatoilHydro** as well as purchases of the two telecommunication companies **Tele2** of Sweden and **Elisa** of Finland. On the other side of the world we bought the Indonesian plantation owner **Astra Agro Lestari** which should benefit from the ongoing expected rise in the price of soft commodities



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Outlook

The outlook is essentially unchanged from last month. The spectre of a serious deflationary impulse imparted by the abrupt reversal in the availability of credit at a time when pockets of inflation are apparent (food, fuel, commodities), has led many to believe that a recession is inevitable, and importantly that the ability or willingness of central banks, led by the Federal Reserve of the US, to react to the slump is constrained. Were this to be an accurate reflection of the current investment environment it would imply a poor outlook for asset prices generally and equities in particular. This is not, however, a view which we share.

It seems to us that the Federal Reserve (Fed) has woken up to the dangers of a debt deflation-driven slump and has shown itself willing to react aggressively to prevent such an occurrence. It should be remembered that the US central bank, unlike many of its peers, has both an inflation targeting role but also a requirement to keep inflation at a level that is consistent with full (ish) employment. It is this latter role that will now come to the fore.

Of course the implications of this are likely to be more interest rate cuts which should lead to a weaker dollar and exported inflation. To deal with this other countries especially in Asia and selected emerging economies are likely to allow their own currencies to appreciate.

Such an outcome may well lead to rising global equity markets. This outcome is further supported by the very attractive equity risk premium being offered by equities currently (defined as the earnings yield of equity markets less the bond yield) following falls in the equity market while bond markets strengthened. Although the correlation of equity and bond markets is not stable through time (and especially at times of deflation) if the Fed achieves its aim, as we expect, of bolstering economic activity through monetary measures, aided by the fiscal package put together by the US administration, then this risk premium is unlikely to be available for long.

We note however that there are an unusual number of issues confronting the market that are hard to analyse with much clarity. As such the range of possible outcomes is large. For this reason we believe that we should maintain a consistent stance within the Fund and not to buy sectors that have done poorly for that reason alone. Patience and vigilance should serve us better and allow us to be well placed to take advantage of the tremendous opportunities that are likely to be available in the coming months.

The broad structure of the Fund remains unchanged from the last quarter. We continue to have a committed position in Asia and Brazil largely at the expense of the US. Despite the strains in the debt markets we do not believe this will destabilise the global financial system sufficiently to prevent the global economy progressing, although this is something we are monitoring closely. We are more cautious than we have been and believe the Fund is relatively defensive in most sectors while maintaining some exposure to those areas that should in time benefit from the actions of the Fed.

We continue to believe equity valuations are reasonable and that returns from equities should therefore be acceptable. Global dividend growth this year, based on our views and our current holdings, is likely to be around 8% and therefore more than consistent with the investment objective of the Fund.

J Harries, February 2008

Performance (%) as at 29th February 2008

%	Yield*	1 month	3 months	6 months	1 year	2 years	Inception
Newton Global Higher Income Fund	3.7	6.28	1.52	9.27	15.23	24.98	38.95
FTSE World Index	2.5	-0.01	-5.90	-3.59	0.59	4.89	11.11
Quartile	N/A	1	1	1	1	1	1

Source: Lipper Hindsight 5. Basis: total return, UK net income, gross tax, no initial charge, in sterling terms. * Approx. Past performance is no guide to future performance.



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