



Monthly Manager Commentary Newton Global Higher Income Fund

October 2007



For Professional Investors Only



James Harries

Newton Global Higher Fund Commentary

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Economic and market developments

October proved to be a strong month for the Fund. The powerful uptrend in equity markets has continued at the same time as news from the banking sector has deteriorated. The month was characterised by a seemingly endless stream of poor news from the financial sector as bank after bank came out with ever larger write downs of housing-related assets held on (which many cases had been held off) balance sheets. This culminated in some banks looking like they may become short of capital, which may prompt dividend cuts, capital raisings, or both. It also led to the CEOs of two of the biggest banks, Citigroup and Merrill Lynch, 'retiring'. This is a big deal and will continue to be so for some time to come.

The US Federal Reserve followed the 50 basis point rate cut in September with a further 25 basis point cut in October. The reaction to this from markets was less euphoric than the last time, owing perhaps to the fact that this cut was more expected and that the rhetoric accompanying the cut was more balanced in view (between the outlook for growth and inflation) than many had expected. In other parts of the world interest rates were left either unchanged or in some cases were actually raised. Meanwhile, the US dollar continued to fall against all major currencies.

Fund performance

The Fund price as at 31st October 2007 was £1.3188. The Fund has returned 4.84% for the month of September which compares favourably with a FTSE World Index return of 1.65%. Over the previous 12 months the Fund has returned 23.26% against a benchmark return of 13.33%, which takes the return since inception to 40.85% against a benchmark return of 21.84%. All figures are in sterling terms.

The Fund is therefore first quartile over one, three and six months, year to date, one year and since inception.

Fund activity

Some changes were made to the Fund over the month. Food price inflation is a theme that we have been seeking to gain exposure to in the Fund for some time but with little success thus far (owing to lack of yielding opportunities). One company that fits the bill however is **Uralkali** of Russia – a potassium miner. The price of this mineral is being pumped up by rising demand for fertilizers and limited supply (like so many commodities both hard and soft). This was funded from **Kraft** of the US, which is likely to suffer margin compression from the same trend. In telecoms we switched the longstanding favourites **Digi.com** (Malaysia) and **Taiwan Mobile** (Taiwan) into **Telefonica** (Spain). We also sold **Acer** (Taiwan) following an expensive acquisition which did not seem to be in the interests of shareholders and also **ICAP** (UK) which breached our yield criteria.

New Investments were made in the luxury goods company **Richemont** of Switzerland and coal producer **Fording Canadian Coal Trust**.





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Outlook

The ongoing backdrop of poor news emanating from the US and the banking sector, contrasting with better news elsewhere, seems set to continue. The consequences of the lax lending practices of recent years are still reverberating through the credit markets, while simultaneously the less developed markets, as well as those that are more developed but less highly geared, continue to make progress. This positive response is predicated on two main assumptions; that the US economy will not de-rail the global economy and that less geared economies and companies felt the debt-driven impulse less strongly than their more geared competitors as the debt bubble inflated, and should therefore weather the withdrawal of credit better. These are views that we have previously espoused, and which we continue to adhere to. We have therefore been optimistic with regard to equities. So far our resolve has been tested, but our views have been vindicated as economic data in most parts of the world has remained robust and equity market returns strong.

The falling dollar is now beginning to cause some alarm (and not a little consternation) and is worthy of note. Although many have been sceptical as to the likelihood of further weakness after such a prolonged period of depreciation, the descent has continued. To have the value of the world's reserve currency falling in price so precipitously reflects a major ongoing and secular transfer of wealth away from the US, and this is something we expect to continue.

The broad structure of the Fund remains unchanged from the last quarter although we have slightly reduced our Asian exposure in favour of Europe and North America. However, 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. Having seen such a strong recovery in equities we are more cautious than we have been for some time.

Despite this 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, October 2007

Performance (%) as at 31st October 2007

%	Yield*	1 month	3 months	6 months	Year to date	12 months	Inception
Newton Global Higher Income Fund	3.3	4.84	8.77	8.88	17.19	23.26	40.85
FTSE World Index	2.2	1.65	6.35	5.61	10.79	13.33	21.84
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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