



Monthly Manager Commentary

Newton Oriental Fund

January 2008



Jason Pidcock

For Professional Investors Only

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Economic and market developments

It was a turbulent start to the year as the credit crisis tightened its grip on world equity markets. The downgrades of monoline insurers, followed by the scandalous trading disaster that rocked Societe Generale, did nothing to help sentiment. Fears of a US recession became more entrenched as employment growth slowed, while the rescue package of fiscal aid and interest rate cuts from the Federal Reserve (a shock 75 basis points followed by another 50 basis points at the end of the month) provided little comfort for investors. Against this backdrop, emerging markets were sold down heavily with China/Hong Kong, Korea, Singapore and India taking the full brunt of the blow, whereas South East Asian economies were relatively unscathed as Malaysia, Indonesia and Thailand fell the least. We feel that valuations in Asia post the sell-off are looking very attractive, and further downside risk from here is limited. However inflation, driven by rising food and energy prices, is becoming more of an issue across Asia. The Chinese government has been implementing price controls across a range of goods and services. We believe these short-term measures will not have the effect the government intended, and that sooner or later, China will need to re-value its currency to remove the build-up of inflationary pressures within its economy. Overall, this should provide a positive boost for Asian markets.

Portfolio performance

The Fund's more defensive holdings provided some support in January, but the indiscriminate nature of the sell-off meant that there was nowhere to hide. Companies which were sold down aggressively included **Lanco Infratech**, the Indian infrastructure development company and **GRD** and **Silex** in Australia. Cyclical and heavy industrials were also sold down aggressively – holdings such as **Doosan Corp** and **Harbin Power** were among some of those worst affected.

Stocks that fared relatively better were **Transurban**, the operator of toll roads based in Australia, **China Unicom** was held up by the prospect of industry restructuring in the Chinese telecoms space, and **REI Agro**, the basmati rice processor, continued to post solid gains despite the collapse in equity markets around the world, ahead of the spin-off of its convenience store business. Performance was also found in Malaysian holdings such as **Public Bank**, which once again delivered on earnings growth and dividend surprise.

Portfolio activity

We continued to sell out of names such as **Hopson** where we felt the government's clamp down on prices will impact company earnings, preferring to add to those names where we felt the sell-down had been overdone, such as **Powertech** in Taiwan, and **Oil Search** in Australia.



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Outlook

Looking ahead, we expect markets to continue to exhibit high levels of volatility. Risks to the global economy look to be skewed to the downside and we see many challenges ahead for 2008. More restrictive liquidity conditions, higher energy prices and a slowing US economy will play a key part in moderating global growth. Although the environment remains challenging for Asia, we feel that the slowdown emerging from the developed world shouldn't dampen the structural Asian growth story, which is supported by solid fundamentals. Asian company earnings growth continues to be well underpinned by a growing domestic economy, fuelled by urbanisation and industrialisation. 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. At corporate level, gearing ratios have been brought down significantly with many companies now sitting on net cash balances. 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. We feel these companies should be more insulated from the effects of a weaker global economy, but at the same time should benefit from structural long term growth trends, and appreciating currencies.

J Pidcock, January 2008



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