



Monthly Manager Commentary Newton Oriental Fund

September 2007



Jason Pidcock

For Professional Investors Only

Newton Oriental 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

September saw a number of our holdings post solid returns – shares in **Las Vegas Sands**, **CNOOC** and **REI Agro** enjoyed gains in excess of 40% over the period, while **Noble Group** shares rose by over 30%. **Noble's** share price was driven up by investors attracted to the company's cheap valuations, while **Las Vegas Sands** saw broker upgrades after the successful opening of the Venetian Macau. **REI Agro** continued its strong run from last month post the announced spin off of its retail business. The basmati rice processor is currently our largest holding in India. A number of our Chinese consumer names were also some of the best performers over the month, including **Belle**, **Times Ltd** and **China Mobile**, whilst **BHP Billiton** shares soared on the back of rising commodity prices, and higher than expected gold reserves at its Olympic Dam project.

Fund activity

We increased the tilt towards China and India via the purchase of **China Mobile** and additions to **HDFC**, **Suzlon** and **Reliance Communications**. **Shun Tak Holdings**, a conglomerate with significant exposure to Macau, was a new addition to the Fund. The shares were offered at an attractive discount in a placement. In Taiwan, we completed the sale of **Acer**, sold out of **Toll Holdings** in Australia, as well as **Siam Commercial Bank** in Thailand, where the economy may suffer from rising oil prices. We reduced our holdings in **China Seven Star** after poor execution and disappointing results. In Korea, we reduced our position in **Doosan Heavy** and switched into **Doosan Corporation** where we see greater uplift from company wide restructuring. Finally, we added to **Raffles Education** after a positive meeting with management. The company is on track to deliver high earnings growth for the medium term.



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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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