

Jeff Munroe
Investment Outlook

Hello, my name's Jeff Munroe, chief investment officer at Newton and I'm here to update you on our current investment outlook.

In many ways, the investment outlook is really an extension of our thinking that began to develop in late 2006. As we moved through 2007 and 2008, we saw really dramatic effects on the financial system from what we felt was an eventual unwinding of some of the excesses that had developed in the credit markets.

As we look into 2009, we think the difficulties in the credit markets are going to have a significant effect on the real economy. This isn't all bad; we think there are some tremendous investment opportunities in this environment, but they're really very specifically based and you really have to be very careful about the kind of things that you want to be included in your portfolio.

The credit system has developed over many years and was predicated on a very big and deep credit market that developed over many years, through many different forms and many different participants in creating a very rich and plentiful amount of credit.

On top of that, we saw a very rapidly developing derivative capability around the financial industry, which meant that global liquidity over many years had been expanding very rapidly; and, in fact, in order to get more and more units of global GDP growth, you needed more and more units of credit growth and derivative expansion.

We really believe that that environment has now passed and that we're into something which is fundamentally different. So, we're looking at an investment environment with much less credit availability, which we think ultimately is going to lead to lower growth and clearly, with the involvement of more government in the financial system, we think we're going to see more regulation. All of that, we think, has profound effects on how we should be looking at investments.

While we think that markets can gyrate around and perhaps be quite volatile around how investors are feeling about government involvement and some hopeful interventions, we believe that the longer-term background is going to come back to some very fundamental, very important tenets of investment thinking.

We believe in this environment in what we call *all change* - that some very long-standing investment themes are going to come back to be very important. We think those companies that can grow in this environment, because of their positioning, or companies that have very stable cash flows and can produce very good levels of sustainable dividend, are going to be very highly sought after.

We think those areas, including some areas of health care (pushed a little bit by some of the population dynamics that we see around many parts of the world where populations are ageing) are very attractive. We also think that, in relation to a more *networked world* (whereby people are looking to connect and network with one another over more portable devices) there is support for the growth and dividend paying capability of many parts of the mobile telephone industry.

In fact, there are many telephone companies around the world that we think are very attractively valued and that can make really good corner stones of any kind of a client portfolio.

There are other things also that we think are really important longer term. The developing world is clearly going to continue to be a very important place, both developing its infrastructure and also developing its consumer base. So, as we see more domestic demand in some parts of the emerging markets, we think selectively good investments in those parts of the world make very good sense.

So, within equities, there are some tremendous opportunities. We would continue to be very cautious about some things within the financial industries; we're not expecting the credit markets to repair themselves quickly or for us to move out of this current economic difficulty very rapidly, so we would be very selective within the global financials area.

We also think that, as time moves on, there will be an opportunity for investors to be more discerning about things in the fixed income markets, and we think selectively some credit opportunities will emerge. At the moment, we would favour some high-quality corporate bonds, but as the year moves through, we think that there'll be more opportunities to buy emerging-market bonds and also some perceived lesser-quality credits where in fact the underlying business may perform very well.

I guess, overall, the theme really for me is that we view this as a very challenging environment, but one that should have tremendous rewards for those investors who can be truly selective about the kinds of things they want to be fitting into a client portfolio; and it's really that which is the focus of Newton's approach. It's using our global themes and our global research, and selectively constructing portfolios that we think can be very compelling in this environment for our clients.

Thank you very much.