

Paul Markham
Global and EAFE Update

I'm Paul Markham, a director of global and 'EAFE' activities here at Newton, and I'm going to give you an update of performance of these portfolios over the first quarter 2009.

The portfolios enjoyed a strong quarter, with relative outperformance driven by the following points: firstly, an underweight to the troubled banking sector where continued worries over the financial position of the banks drove share prices considerably lower.

Also, very strong stock selection within the oil and gas sector, the energy sector, where we saw very good stock selection despite an underweight position.

The portfolios also enjoyed a strong quarter of outperformance from their holdings in the emerging markets, particularly South America, where investors realised that the 'under-leverage' in these markets, together with attractive valuations, were worthy of a re-rating. We saw a particularly good performance from individual stocks selected in these areas.

The market enjoyed something of a bounce towards the end of the period as investors considered the market to be 'oversold'. This did lead to some underperformance from the portfolios at the very end of the quarter, especially as the technological and cyclical sectors enjoyed a period of outperformance. However, the overall picture for the quarter was one of very strong outperformance for both global and EAFE portfolios.

As you can see from the screen, we continue to run portfolios with a high degree of conviction and this applies to the sector positioning as well as to the geographical and individual stock selection. The biggest overweight in the portfolios at the moment remains the telecommunications sector, both the mobile and the fixed line, where we consider the very high free cash flow yields and good dividend yields to be very attractive in a period of uncertainty.

Conversely, at the other end of the scale, you will see that we are continuing to underweight those cyclical sectors which we think will be most impacted by lack of credit; and we continue to feel that, going forward, the consumption habits of the world will be in recession for some time. This leads us to maintain a cautious stance within the portfolios.

It is undoubtedly the case that unprecedented levels of monetary stimulus from governments and central banks will put a floor under consumption and this will be aided in many economies by fiscal stimulus as well. However, despite this, we continue to feel that credit availability will remain constrained for the foreseeable future and that much of the additional money within the system will be snagged up in banking balance sheets, making sure that the financial system continues to operate with a degree of liquidity.

We do also feel that, over the medium term, inflationary pressures are likely to be considerable and this will put additional pressure on governments who will need to formulate their policy in such a way as to control inflation (and the erosion of savings and spending power which that involves), but not to choke off a recovery in its early stages.

We expect volatility in equity markets to remain high as investors struggle to discriminate between the advantages of more accommodative monetary policy (and the extra consumption benefits which

that brings) and the evil of inflation, which will concern markets, certainly as regards government approaches to interest-rate policy and also the situations of savers and borrowers.

Given this volatility, we do expect markets to trade within ranges for a period of time. This does mean that there will be opportunities for the equity investor, but stock selection will be critical. It will also be very important to ignore for the large part the short-term 'noise' which will surround markets over this time.

We continue to believe that a long-term thematic strategy, coupled with a rigorous approach to valuation, will reap rewards for the longer term investor, and that current equity valuations may well offer considerable rewards over the longer term for participants in the market.

As you can see from the screen, our process has continued to yield robust long-term results and we believe that this approach is even more relevant at a time of great change for the world.