

Newton Asian Income Inc

Morningstar Fund Report

Chetan Modi
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Income-focussed funds investing in the Asia Pacific ex-Japan region are rare but we think Newton Asian Income is a strong choice.

Funds that invest in the Asia-Pacific ex-Japan region and target yield are few and far between. They have emerged recently but there are only a handful available to investors so far. As always, investors should beware the perils of investing in Asia Pacific ex-Japan equities, even with the prospect of a dividend return. Although the adverse global market movements over the past year have hit nearly all markets, emerging Asian markets are typically more volatile relative to developed markets. It's therefore key to pick an experienced manager who has a sound strategy and is backed up by strong research staff.

Newton Asian Income fulfils these criteria. Jason Pidcock has spent his entire 15 year career investing in Asia Pacific ex-Japan equities; he is also backed up by a strong team. Ewan Markson-Brown and Zoe Kan not only bring an average of 7.5 years experience to the table but their skills are complementary; Markson-Brown has small-cap and Indian equity expertise, Kan focuses on Korean and Chinese equities and Pidcock specialises in the Australasian region. The team is supported by the 21-strong career analyst bench at Newton, a division of the firm of which we think highly and this gives us further confidence in the offering.

We like the fund's comprehensive strategy. Pidcock follows Newton's thematic process. Given the fund's yield requirement, however, some themes are difficult to play. Pidcock and his team thus have to unearth their own ideas beyond those on the global recommended list, although they can direct these to an analyst for further investigation prior to buying. Pidcock only considers a stock if its prospective yield is 35% higher than that of the FTSE AW Asia Pacific ex-Japan Index which leaves him with a universe of up to 800 stocks. A stock is sold when its yield falls 15% lower than that of the index, in keeping with the yield discipline seen across all Newton's income-targeting funds; it is a discipline which has proven to be well executed across the board. The analysts' bottom-up fundamental analysis ensures managers aren't attracted to stocks that only look good on a yield basis. Furthermore, the yield discipline ensures Pidcock focuses his attention on those companies with robust cash flows which are likely to show some resilience during any downturns in the Asia Pacific ex Japan region.

Indeed, the Newton Asian Income has held up better than its average peer in the Morningstar Asia Pacific ex-Japan category during the year-to-date to 17 December 2008 and has also exhibited markedly less volatility relative to the category norm since its inception. This is something we like to see in an emerging markets offering, in part because the income provides a nice cushion for returns. The fund's 12-month yield is also above the average yield of an income-focussed peer group investing in the region.

In short, we think this fund's experienced manager and sound and consistent strategy, bolstered by strong resources, make this fund a compelling choice for Asia Pacific ex-Japan equity exposure.

Strengths

- Experienced manager.
- Disciplined approach in searching for yield.
- Strong analyst research bench.

Concerns

- The fund can lag peers when pricey or lower-quality issues lead the market.

Portfolio Role

- Supporting Player—the fund can be used as a diversification tool for investors who are looking for Asia excluding Japan exposure.

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Strategy

Macroeconomic themes lie at the heart of Newton's firm-wide process. Once stocks are sorted by theme, those that exhibit the most compelling fundamental characteristics at attractive valuations qualify for the analysts' recommended list. However, some themes identified by Newton may be difficult for this fund to play given the limited universe in the Asia Pacific ex-Japan region. As a result, only around 50% of the stocks in the portfolio are derived from the recommended list and the rest are ideas from the Far East ex Japan team. The team visits around 250 companies per year and also uses external broker research. Pidcock narrows down the Asian equity universe by targeting stocks whose market cap is over £100m. Although this is not a strict size limit, the manager would rarely invest in smaller companies for liquidity reasons. Like other income mandates at Newton, Pidcock overlays a strict yield criteria and will only buy a stock if its prospective yield is 35% higher than that of the FTSE AW Asia Pacific ex-Japan Index. This leaves Pidcock with a universe of between 700–800 companies. A stock will be sold from the portfolio when its yield falls below 15% of the index yield.

Management

Jason Pidcock began his career as a trainee fund manager at Henderson Global Investors in 1993, covering the Pacific ex-Japan region. In 1996 he moved to BP and was responsible for stock selection and asset allocation in Asia Pacific ex-Japan for the firm's pension fund. Pidcock joined Newton in 2004, where he leads the Far East ex-Japan team. He has run this fund since its launch on 30 November 2005. He also runs the Newton Oriental and offshore BNY Mellon Asian Equity funds. Pidcock is supported by two other members in the Far East ex-Japan team and can also draw on the work of Newton's staff of 21 global analysts.

Ewan Markson-Brown is the alternate manager on this and three additional funds. Markson-Brown was hired from Merrill Lynch where he ran an Asia ex-Japan retail fund along with a smaller-cap portfolio; he has seven years' experience and brings small-cap and Indian equity expertise to the team. Zoe Kan is also a member of the Far East ex-Japan team and joined Newton in September 2000. She manages the Newton South East Asia Exempt fund and specialises in researching Korean and Chinese equities.