

# New Star Higher Income Fund

## Factsheet - October 2008

New Star Investment Funds, 1 Knightsbridge Green, London SW1X 7NE www.newstaram.com



### Fund aim

To achieve increasing distributions with the potential of long-term capital growth. The fund will invest principally in the securities of UK companies.

### Fund facts

at 30/09/2008

### Launched

February 2002

### Mid price

36.63p

### S&P fund rating A

### Fund size

£355.04m

### IMA sector

UK Equity Income

### Type of shares

Income

### XD date

1 March, 1 September

### Payment dates

30 April, 31 October

### Historic yield \*

8.7%

### Minimum investment

### Lump sum

£1,000

### Subsequent

£100

### Regular savings

£100 per month (£50 per fund)

### Fund charges

Initial 5.25%

Annual 1.50%

### Market capitalisation (%)

Large	66.58
Mid	27.41
Small	8.73

### Sedol numbers

3125052 (Retail)

3126389 (Institutional)

### Fund manager profile - Toby Thompson

Toby Thompson has 19 years' investment experience. He joined New Star in 2002 from Newton, where he managed the Newton Higher Income Fund. Toby employs a distinctive 'sentiment contrarian' approach to managing the New Star Higher Income Fund which is 'A' rated by Standard & Poor's.



### Fund manager comment

The New Star Higher Income Fund fell 15.2%# in September while the FTSE All-Share Total Return Index lost 13.2%#. It was an unprecedented month in the financial markets. The US government looked to shore things up with the nationalisation of Freddie Mac and Fannie Mae and then made an emergency loan to AIG. In the UK, Lloyds TSB bid for HBOS to create what will be the largest UK retail bank, with banking system stability deemed more important than the 30% market share that the combined entity will have. Bradford & Bingley's position was also deemed too precarious and the government nationalised it.

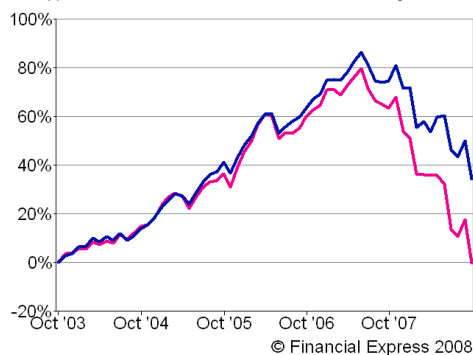
The fund's performance was negatively affected by its exposure to HBOS, which fell 61.2% during September despite Lloyds bid. Since the offer is in shares, HBOS shares are now linked to Lloyds's share price, which remained volatile. The value of Bradford & Bingley was written down to zero. While the position was small, this is disappointing. Elsewhere, Cattles, the unsecured lending company, fell 32.7%, pushed lower by fears that the slowing economy would affect the ability of its customers to repay loans.

Resilience was provided by the fund's life insurance holdings, which benefited from the restriction on short-selling financial stocks, National Grid and HSBC. The fund's underweight position in mining stocks also benefited relative performance since this sector was the biggest negative contributor to the market. The fund sold its Persimmon holding, which no longer met the yield criteria, in favour of Raven Russia, the property company.

Top 10 holdings	(%)	Top 10 sectors	(%)
HSBC Holdings	10.15	Banks	21.06
Vodafone Group	8.71	Life Insurance	13.40
National Grid	5.46	Oil & Gas Producers	9.68
Royal Dutch Shell	5.43	Mobile Telecommunications	8.71
Aviva	5.17	General Retailers	7.84
Legal & General	4.43	Financial Services	6.19
BP	4.24	Non-Life Insurance	6.19
Barclays	3.41	Support Services	5.57
Royal Bank of Scotland	3.10	Gas Water & Multi-utilities	5.46
RSA Insurance	3.02	General Industrials	3.94
<b>Total number of holdings</b>	<b>55</b>	<b>Cash &amp; other</b>	<b>-2.72%</b>

### Performance

Percentage growth, 30 September 03 to 30 September 08.  
Source: Lipper, mid-mid, UK basic rate, based in UK sterling.



■ New Star Higher Income Fund (-0.32)  
■ IMA UK Equity Income (34.12)

Sector ranking	Sector position	Quartile ranking†
Since launch 25/02/2002	64/65	4th
6 months	92/92	4th
1 year	92/92	4th
3 years	82/82	4th
5 years	72/72	4th

Source: Lipper, mid-mid, net income reinvested at 30/09/08.

Income performance	Sector position	Quartile ranking†
Yield	3/87	1st
3 year income return	15/87	1st
Consecutive years of dividend growth	8/87	1st

Source: Asset Risk Consultants at 30 June 2008. Data is normally calculated quarterly.  
† 1st quartile means the fund is ranked in the top 25% of funds in its sector.

Discrete year performance	Fund performance
30/09/2003 to 30/09/2004	14.9%
30/09/2004 to 30/09/2005	18.8%
30/09/2005 to 29/09/2006	17.3%
29/09/2006 to 28/09/2007	2.0%
28/09/2007 to 30/09/2008	-38.9%

Source: Lipper, mid-mid, net income reinvested.

### Past performance is not necessarily a guide to future performance.

#Performance figures are on a mid-mid basis, net income reinvested to 30/09/08. Source: Lipper, except company performance, which comes from Datastream. \*Yield is net of charges and net of tax and is not guaranteed. The Historic Yield reflects distributions declared over the past 12 months as a percentage of the mid-market share price, at the date shown. It does not include any preliminary charge and investors may be subject to tax on their distributions. The fund's annual management fee is charged to capital. This has the effect of increasing the distributions for the year by 1.50 percentage points and constraining the fund's capital performance to an equivalent extent. The value of investments and any income from them may fall as well as rise and may also increase or decrease as a result of changes in exchange rates between currencies. Investors may not get back the amount originally invested. The level of income from the New Star Higher Income Fund may fall as well as rise and is not guaranteed. Please note that high income funds may carry an increased risk of capital erosion and higher volatility. This document is provided for the purpose of information only. The opinions expressed here are the fund manager's at the time of production and should not be interpreted as investment advice. Any income allocated has tax deducted at a rate of 10%. The simplified prospectus and full prospectus for this fund are available from New Star on request. New Star Investment Funds is the trading name of New Star Investment Funds Limited, part of the New Star Marketing Group. New Star Investment Funds is not authorised to give investment advice and only provides information on New Star's products. Issued by New Star Investment Funds Limited. Authorised and regulated by the Financial Services Authority.