



Guy de Blonay, manager of the New Star Global Financials Fund, comments below on the weakness and volatility affecting stockmarkets over the summer months and explains why the fund will maintain a cautious but opportunistic approach. The New Star Global Financials Fund is rated 'AA' by Standard & Poor's and the manager is 'AA' rated by Citywire*. The fund returned 101.88% in sterling terms over the five-year period to the end of August compared to the FTSE Global Financials Total Return Index, which rose 8.91%#.



Financial stocks were plagued by weakness and volatility over the summer months. The New Star Global Financials Fund's defensive positioning, with lower exposure to equities and relatively high levels of cash and cash equivalents, aided performance as markets headed downwards from mid May. The fund's cautious stance and use of short positions in index futures bolstered performance until mid July, when intervention by the US Securities & Exchange Commission to ban 'naked short-selling' combined with the sliding oil price and better-than-feared corporate results to ignite a relief rally. In the subsequent weeks, the financial sector continued to experience unusual volatility.

In the difficult trading conditions from mid July, an outright underweight position in banks was no longer the obvious strategy. Instead, the fund focused on companies with little to no sub-prime structured products but with diversified income streams, strong franchises and exposure to emerging markets. Core holdings included hedge fund managers, which can take advantage of volatile conditions and have the potential to perform strongly in all market conditions. They also included diversified insurers with strong balance sheets and healthy capital ratios. JP Morgan's recent statement highlighted deteriorating third quarter trading conditions. The approaching results season will be monitored with interest but the fund is likely to avoid highly-leveraged companies such as investment banks.

The fund will remain opportunistic and look to add selectively at a sub-sector level. A position was initiated recently in the banking group, Intesa Sanpaolo. It is a leader in the Italian market and has an international presence focusing on Central and Eastern Europe and the Mediterranean basin. The group's de-rating, in line with the European banking sector, provided a good investment opportunity. Intesa Sanpaolo has a defensive business profile, with 80% of its income coming from retail banking, and it has a minimal exposure to investment banking and capital markets. It is well funded with high retail deposit levels and has a robust capital base that may be increased by the sale of non-core assets. HSBC is another defensive holding, with its wide geographical diversity and a healthy dividend yield. It is also well capitalised in a sector suffering from capital constraints.

The fund continues to steer clear of major domestic banks in the UK, US, Ireland and Spain. Instead, it has reinvested in regions with the potential to benefit from local structural growth. In Asia, interesting opportunities may be found in Japan although the risks associated with a prolonged economic downturn need to be monitored carefully. Holdings include Mizuho Financial Group, which was one of the few major banks to announce year-on-year net profit growth and has the potential to outperform its peers.

In the West, Canadian banks look attractive because the country has relatively resilient growth prospects as a result of its resources sector. Canadian banks, such as Canadian Western Bank and National Bank of Canada, are well placed to benefit from the limited competition within the industry, their relatively healthy asset quality, strong liquidity position and capital strength.

Sector share price trends over the coming months will be influenced by a number of factors, the most important of which are the macroeconomic influences on interest rate movements and the possibility of receding inflation. The potential resurrection of the US housing market through the new US housing bill will be closely monitored. This \$300 billion government initiative is intended to refinance troubled mortgages and boost the oversight of Fannie Mae and Freddie Mac. More specifically for the banks, important access to funding would occur if the securitisation market re-opens; this would remove the pressure on central banks as a source of funding. stocks have rallied and corporate bond yield spreads have shrunk in recent weeks. This follows JP Morgan's Bear Stearns rescue with Federal Reserve backing and other Fed measures to improve the functioning of the financial markets. Before the rescue, banking sector valuations had fallen to distressed levels so the recent rises can be characterised as a relief rally.

It is important that investor enthusiasm returns to the sector because there are likely to be further capital raisings later this year and in 2009. More capital will be required because of the worsening economic environment is leading to further deterioration in credit quality on all business lines. This is affecting the banks' already stretched balance sheets, with loan portfolios suffering from higher levels of provisioning.

* At 31.07.08

Source: Lipper, performance data in sterling, NAV to NAV, net income reinvested to 29.08.08



NEW STAR GLOBAL FINANCIALS FUND

Important information

Past performance is not necessarily a guide to future performance. The value of investments and any income from them may fall as well as rise and investors may not get back the amount originally invested. The value of investments may also increase or decrease as a result of changes in exchange rates between currencies. Investments made in the funds involve certain risks, as described in the relevant prospectus. Any opinions expressed in this document may vary without prior notice and do not constitute investment advice.

This document is for professional advisers, professional investors and other financial institutions only and should not be provided to or relied upon by private investors. This document should not be distributed to any third parties and does not constitute an offer or solicitation to anyone in any jurisdiction in which such an offer is not authorised or to any person to whom it is unlawful to make such offer or solicitation. Details of where the fund is authorised for distribution are provided below. Distribution of this document and the offering of shares in certain jurisdictions may be restricted and accordingly persons into whose possession this document comes are required to inform themselves about and to observe such restrictions. If this is the case, the fund cannot be the subject of active marketing in your jurisdiction.

The fund mentioned in this document should be viewed as an investment suitable only for investors who can fully evaluate and bear the risks involved. Full details of the fund can be found in the prospectus or Offering Document, in the case of Hong Kong (where applicable). Any investment decision must be made solely on the basis of the information contained in the prospectus/Offering Document, the simplified prospectus, the Instrument of Incorporation/Trust Deed and the most recent annual and interim reports which are available upon request.

The shares referred to in this document have not been and will not be registered under any United States securities laws, and, except in a transaction that does not violate the United States securities laws, may not be directly or indirectly offered or sold in the United States of America, or any of its territories or possessions, or areas subject to its jurisdiction or to or for the benefit of a United States person.

The New Star OEIC, of which the New Star Global Financials Fund is a sub-fund, is currently registered for sale in the UK, France, Spain, Italy and is recognised in Singapore.

New Star OEIC, the ACD, New Star Investment Funds Limited, and the Investment Adviser, New Star Asset Management Limited, are authorised and regulated in the UK by the Financial Services Authority. New Star Investment Funds is not authorised to give investment advice and only provides information on the New Star Group's products.

In the Netherlands: the fund mentioned in this document is not registered for distribution in the Netherlands. As such, the units or shares may only be offered to professional persons as referred to in the Regulation ex article 14 of the Act on the Supervision of Collective Investment Schemes as set out in the Ministerial Decree of 9 October 1990, as amended from time to time.

This document has not been verified or approved by any relevant supervisory authority in the jurisdictions where the funds are registered.

For your protection, calls are recorded and may be monitored.

Issued by: New Star Investment Funds Limited.

The write-downs and losses associated with sub-prime and structured products should begin to abate as prices stabilise but in the short term major financial institutions will potentially experience further pain before they improve. Macroeconomic data is expected to worsen throughout the remainder of the year; dividend cuts are inevitable for the US banks and this will feed through to European banks.

In this environment the fund will continue to focus on well-capitalised banks that offer minimum risk in terms of dividend cuts. While deteriorating credit quality will affect the banks, valuations are beginning to look attractive because there are still regions where earnings will continue to grow at a healthy rate.

Over the last year or so, trading conditions have been significantly worse than expected but there are areas within the financial sector that should cope better with them. They include emerging markets, where there is structural growth although rising inflation is a concern. The US, meanwhile, also has short-term recovery potential as the first economy to slow down is often one of the first to rebound.



HOW TO CONTACT NEW STAR INTERNATIONAL

INTERNATIONAL INVESTMENT SERVICES

Phone: +353 1 475 8000

Email: dublin@newstaram.com

Web: www.newstaram.com

INTERNATIONAL DEALING AND ADMINISTRATION

Phone: +353 1 853 8732

Fax: +353 1 853 8536

Past performance is not necessarily a guide to future performance. The opinions expressed here represent the views of the fund manager at the time of preparation and should not be interpreted as investment advice.