



Global emerging markets have been strong relative to their mainstream counterparts through the second half of 2007 and compelling opportunities remain for 2008. The New Star Global Emerging Markets Fund, managed by Brian Coffey, is in the top quartile of its sector over the year-to-date\*. Below Brian picks the countries and sectors that he particularly favours moving into 2008.



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One of the most noteworthy themes to emerge from the stockmarket turbulence since the summer of 2007 has been the resilience of emerging markets. While some gains were given back in November on concerns about US economic and financial prospects, emerging market performance over the first 11 months of the year remained well ahead of performance in developed markets.

Higher commodity prices have improved the position of many emerging market economies. A shift in trade patterns has also been supportive. Although it may be too early to conclude that emerging markets have decoupled completely from economic developments in the US, the growth in emerging market exports to alternative destinations has been impressive. Over the last year, Chinese exports, for example, have increased 106% to Russia, 67% to India and 60% to Brazil, with sales to the US up just 13%. While the US remains important, the shift in trade offers some reassurance that slower US economic growth may not lead to a global downturn.

In recent years, the emerging market giants of China, India, Brazil and Russia, with their super-charged economic growth and healthy foreign exchange reserves, have proved to be profitable destinations for investors seeking outperformance. Smaller countries have also delivered impressive returns, notably Vietnam, Indonesia and the Philippines.

Looking ahead, the investment case for China and in particular Chinese stocks listed in Hong Kong remains strong. While Chinese stockmarkets have recently retraced some gains, economic expansion has continued apace. Although this may slow slightly in 2008 due to weaker western demand, many companies have attractive prospects. In particular, the growth of consumer banking from small beginnings, rising wages and the wealth effect of rising property and share prices create a potent mixture, with the 2008 Beijing Olympics likely to provide a further boost. Sectors in China/Hong Kong with particular potential include financial services and property.

India also has attractive prospects, with investors potentially benefiting from the country's proactive monetary policies. Industrial production is likely to remain healthy, with falling market interest rates potentially supporting growth. Deposit growth has also been buoyant, a trend that should provide support for banking sector liquidity. The threats to this benign environment would come from political upheaval and a serious deterioration in US economic conditions. That said, companies within the financial, industrial and communications sectors appear particularly well placed for growth.

Latin America has also attracted investor attention in 2007 and exceeded emerging Asia's gains in the 11 months to 30 November, with Peru up 89.8% and Brazil 70.7% ahead against 70.7% for China and 59.3% for India.

Brazil continues to offer potential. Economic conditions have been supportive, with measures to stimulate infrastructure investment and tax breaks for targeted sectors helping to accelerate growth. The country's natural resources have led expansion, with its raw materials output being used heavily in China. Brazil's oil reserves have provided rich rewards and Petrobras, the state-controlled oil company, has risen strongly as a result. Petrobras shares were boosted by the recent announcement that the Tupi oilfield may contain 5-8 billion barrels, making it the world's second-biggest strike in 20 years. With interest rates at their lowest in recent decades, consumer demand is also supportive. While inflation could pose a threat as a result of higher food and gasoline prices, this remained below the central bank's target of 4.5% in October. Sectors with particular potential include financial services, materials and energy.

The disappointments in 2007 in Latin America have included Mexico, which has suffered largely as a result of its direct and indirect trade links with the US. Some 85% of Mexico's exports are to the US, a situation that will be detrimental when the US economy falters.

Within Eastern Europe, Turkey and the Czech Republic have been strong. Russia, however, has been relatively subdued, up 17.6% during the 11 months to 30 November. The disappointing returns are likely to have been the result of uncertainty in the political arena. While Vladimir Putin is expected to retain political control following the recent Duma elections, there is increasing unease at the risk politics poses to Russian businesses. As a result, state-controlled energy companies have been relatively subdued through 2007. The global credit crunch has also taken its toll, with Russian capital investment growth slowing.

The key issues for global emerging market investors moving into 2008 will be the severity of the US slowdown and the extent to which this spreads. With leading indicators from the Organisation for Economic Co-operation and Development remaining healthy, however, the potential remains for modest global economic growth. As investors cast their nets wider in the quest for returns, emerging markets should continue to benefit, not least because of their perceived "haven" status in the midst of developed market turbulence. As a result, certain countries and sectors should provide compelling opportunities for 2008.

\*At 30 November 2007

Past performance is not necessarily a guide to future performance. The opinions expressed here represent the views of the fund manager at 30 November 2007 and should not be interpreted as investment advice.



## NEW STAR GLOBAL EMERGING MARKETS FUND

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

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### FUND FEATURES

- Top-down approach, focus on markets likely to deliver superior growth as a consequence of economic reform and foreign investment
- Stock selection in close co-operation with New Star's regional specialists
- Portfolio of between 80 and 100 companies for geographical diversification

### FUND AT A GLANCE

Fund type:	Irish authorised OEIC
Base currency:	US dollar
Other currency classes:	GBP (currently closed to new investors) GBP share classes hedged against the US\$
Launch date:	16.08.2002
Minimum investment:	US\$5,000 or £3,500
Subscription fee:	Up to 5.25%
Management fee:	1.75% per annum
ISIN USD:	IE0031946878
GBP:	IE0031947173
Bloomberg	NSGLOBID
Sedol	3194687
Valor	1657147
Registration	UK, Ireland, France, Spain, Italy, Switzerland, Netherlands, Denmark, Sweden, Finland, Hong Kong, Singapore (recognised)

Fund information at 30 November 2007.

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