

NEW STAR ASSET MANAGEMENT COMMENTARY

BACKGROUND

New Star continues to believe that the financial services sector is a very attractive sector to invest in. The sector has a long-term track record of generating wealth for shareholders. It is one of the largest and most diversified sectors within global stock markets. There are a large number of sub-sectors within the global financial services sector including; savings banks, regional banks, mortgage banks, broker dealers, asset managers, life insurance, non-life assurance (including reinsurance) and speciality finance (credit cards, leasing, financial guarantors, etc). This diversity allows the Investment Manager to find attractive investment opportunities at every stage in the investment cycle. New Star will not hesitate to have a zero weight in a particular sub-sector.

The portfolio manager of the funds, Guy de Blonay, seeks to identify themes that are driving returns of global financials. Recent themes have included growth in European mortgages, M&A, growth in Eastern European banking and other emerging market opportunities. Mr. de Blonay continues to find attractive opportunities within these themes and elsewhere within the sector.

EFFECT OF SUMMER 2007 CREDIT CRUNCH

Nervousness about potential fallout from the US sub-prime mortgage crisis and the subsequent credit crunch hit financial stocks particularly hard over the summer months. Companies in the United States were hardest hit, but the funds had minimal exposure there. Whilst some short-term issues remain to be resolved, deep value can now be found in certain financial companies in developed and emerging markets around the world.

Over August investors became increasingly risk-averse and as a result one of the funds' favoured areas, the European banking sector, suffered, falling more than 13% from its summer peak in mid-July to its mid-August low. This sell-off was largely indiscriminate, with little differentiation of performance or fundamental value across the sector. Wholesale banks such as Credit Suisse and Société Générale were among the worst hit but retail banks, especially those exposed to 'hot' property markets such as Ireland and Spain, also suffered.

While the stock market sell-off made for an uneasy summer for investors, the resilience of the world economy has provided some reassurance for those prepared to take a longer-term view. The correction so far has been driven by sentiment and financial market liquidity trends, with robust global economic growth continuing to support profitability.

SHORT-TERM OUTLOOK

The short-term outlook for financial stocks will depend on further data released in September. So far, the stock market has reacted positively to the recent cut in the US Fed rate and the banks that have reported. Further signals of the levels to which banks are exposed directly or indirectly via derivatives to the US sub-prime mortgage crisis will ensure facts replace rumours about the seriousness of the problems, and confidence among investors should improve.

Comfort can be taken from the maintenance of healthy global economic growth through the stock market turbulence, demonstrating that the US is no longer the sole engine of global trends.

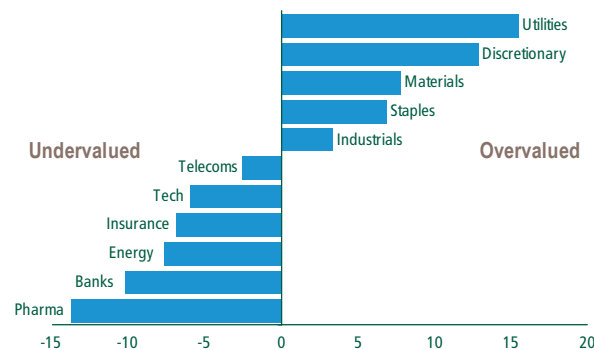
In the short-term we expect the pain from the credit market dislocation will be concentrated in fixed income divisions of investment banks and banks with heavy exposure to mortgages. Origination volumes for corporate debt and structured

products will be down sharply, in addition there may be trading losses to take on loan books and off balance sheet positions. The funds' exposure to these areas has been quite low. However, there are also potential gainers; insurance companies, debt management firms and asset managers with hedge fund operations, all have the potential to generate profits in rising or falling markets. In addition, the emerging market growth remains largely intact.

SENTIMENT REMAINS POSITIVE FOR FINANCIALS

Figure 1 shows the results of a recent Merrill Lynch survey of fund managers and demonstrates that there is a consensus that financials currently offer considerable value:

Figure 1: Fund Manager Sector Views



Source: Merrill Lynch Global Fund Manager Survey, 19 September 2007

PORTFOLIO ACTIVITY

Given the sudden changes in the environment for financials we have adjusted the portfolios to avoid short-term risks. In particular, leverage was reduced to a small cash position through reduction in bank and diversified financials holdings in Europe.

The Funds have avoided North American banks and UK mortgage banks (e.g. Northern Rock and Alliance & Leicester) for some time, due to primary concerns on over valuation/over stretched balance sheets.

The funds significantly reduced their previously large holdings in Credit Suisse and Societe Generale although the remaining exposures did affect performance in August. The funds have minimal holdings in Ireland and Spain and reduced their exposure to Western European banks in general through the second quarter of 2007 in favour of those in faster-growing emerging markets. These generally fared better during the summer correction with the funds' holdings in Greece and China making notable contributions.

On a stock specific basis the funds used the market weakness in August to top up existing holdings on strong asset gatherers such as Schrodgers, Man Group and Julius Baer and add new positions such as Baloise Group, a Swiss insurer.

OUTLOOK

Valuations

European banks and European financials in general are trading at the best values that we have seen in over a decade. The charts to the right give an indication of this value.

Some of these valuation extremities may be the result of a lack of confidence about the stated book values and outlook for earnings; until the market shows signs of stability, the opportunities amongst banks remain unclear.

We will remain vigilant during forthcoming bank reporting season and will carefully monitor market reactions and will consider re-entering some positions once better transparency is available.

A similar story on valuations can be found amongst other parts of the financial sector. However, in our view this in-discriminate impact on valuations is not warranted. Whilst balance sheet transparency is paramount for banking stocks to regain momentum, other sub-sectors are not necessarily exposed to the same risks. Broker-dealer stocks and hedge fund managers should generate profits regardless. In addition insurance companies, generally have large amounts of cash on their balance sheets and should perform well in the current climate.

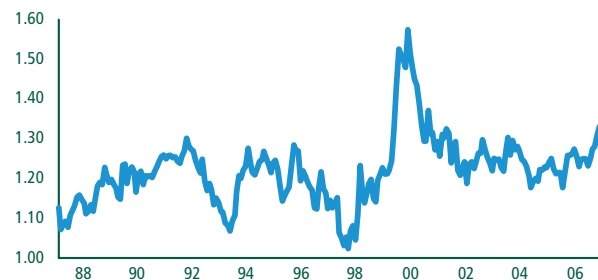
Emerging Market Growth

The funds' exposure to faster-growing markets includes Asia. Banks, insurers and property investment businesses in the region appear particularly attractive. The property markets in China and Hong Kong, in common with much of the rest of South East Asia, appear reasonably valued compared to growth in wages while the long-term liberalisation trend provides numerous investment opportunities. Meanwhile, the arrival of consumer banking, rising wages and the wealth effect of rising property values and share prices create a potent mixture. As restrictions on Chinese capital flows overseas continue to ease, China's pools of capital are likely to pour into offshore investments, with Hong Kong and other mainstream Asian markets the potential beneficiaries. We have taken advantage of these opportunities by investing in companies such as Hang Lung Properties, Shenzhen Investment and China Life Insurance.

Turkey also has potential. The re-election of Recep Tayyip Erdogan as prime minister provides the long-term political stability for which international investors had been hoping. Garanti Bank in particular is well positioned to benefit from increased consumer lending, particularly mortgages, once interest rates begin to fall. A similar situation is apparent amongst the Greek banks. One of our favoured Greek stocks, Marfin, has been a substantial beneficiary of accelerating loan growth and expanded into growing markets at attractive valuations and does not suffer from wholesale funding or sub-prime issues.

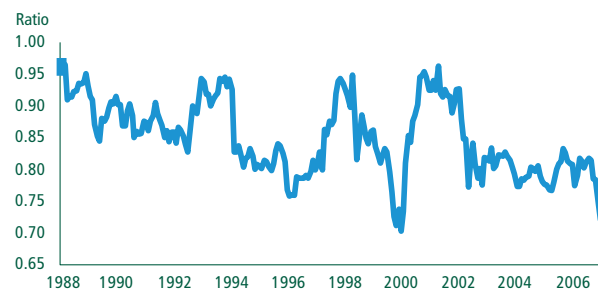
In Latin America, Brazil looks attractive, with interest rate cuts expected and demand for consumer loans likely to rise. Economic growth forecasts for 2007 and 2008 were raised at the end of August amid confidence that turmoil in global credit markets would not affect the Brazilian economy. Demand for the country's commodity exports is expected to remain strong while inflation is likely to stay well below the central bank's 4.5% target. We are pursuing opportunities in companies such as Banco Do Brasil.

Figure 2: Relative Dividend Yield for European Banks



Source: Thomson Datastream, September 26 2007

Figure 3: Price/Book of European Financials Relative to Market



Source: Lehman Brothers, FTSE, Worldscope, Exshare

SUMMARY

To date, we have not seen any widespread deterioration in the financial health of the companies in the portfolio. We believe the funds are well positioned to benefit from the long-term growth potential of the financial services sector and that, on a valuation basis, there are some compelling opportunities in the market. Many of the themes that have guided our investment strategy have not been directly impacted by the credit crunch.

We have taken some risk out of the portfolios as we wait for greater clarity in terms of the risks that are in the marketplace. Recent US Fed action on lowering interest rates and mixed results by Lehman, Goldman Sachs and Bear Stearns have, overall, been positive for stock markets. General positive signals for a return of confidence to financials include: i) the level of share buying by company directors being at a 12 year peak, and ii) the encouraging statements by central bankers about their commitment to help in stabilising financial markets. These factors should allow asset prices to move closer toward their fundamental values after selling off extremely hard during the summer.