New Star Global Financials Fund

Quarter ended 30 September 2008

www.newstaram.com The fund is a sub-fund of New Star OEIC.

Lipper Global Equity Sector Banks and Other Financials sector

Guy de Blonay,
Fund Manager

Executive summary

- The New Star Global Financials Fund fell 15.91%* in sterling terms during the third quarter of 2008 while the MSCI World Financials Total Return Index (£) gained 1.03%* and the FTSE Global Financials Total Return Index (£) fell 5.10%†.
- The fund underperformed because of its defensive bias, which meant it missed out on the sector's summer rally.
- Falls among core holdings and increasing exposure to domestic banks such as Royal Bank of Scotland also affected performance.
- The quarter was characterised by unusual volatility, a recovery in the dollar and large swings in investor sentiment towards financial stocks.
- The fund ended the quarter positioned cautiously, reflecting the challenging near-term economic prospects.
- The portfolio was underweight in areas exposed to leveraged businesses, consumers and regions facing particular challenges such as Eastern Europe.
- Equity markets are likely to remain weak in the short term.

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Prepared for professional advisors, professional investors and financial institutions only.

* Data source: Lipper, performance in fund's base currency, sterling.
† Data source: Datastream, performance in fund's base currency, sterling.

New Star Global Financials Fund

Quarter ended 30 September 2008

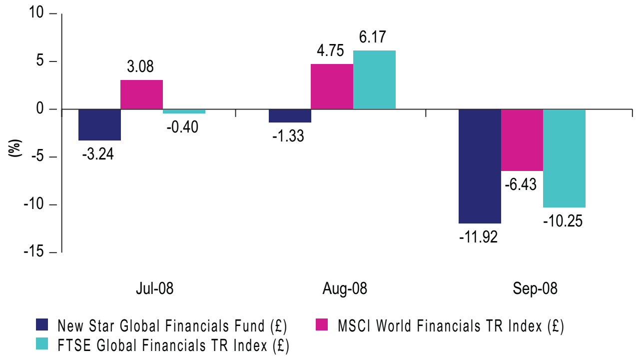
Fund statistics

Guy de Blonay,
Fund Manager

NAV (per share)

£ class	£1.89
Fund size	£178.9m

Performance (%) – 3rd quarter 2008



Performance Overview

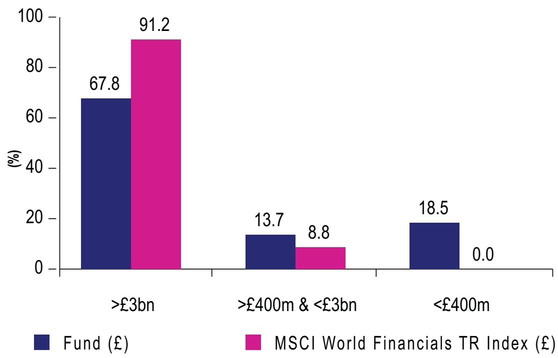
	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Year to date	1 year	3 years	2007	2006	2005	2004	2003	Since launch
£ class	-15.91	-7.90	-15.32	-0.31	-34.42	-34.62	-1.87	8.70	23.56	46.42	24.74	29.79	117.00
MSCI World Financials TR Index (£)	1.03	-12.42	-11.37	-6.53	-21.58	-26.70	-13.64	-9.22	9.20	25.38	10.16	25.64	1.88
FTSE Global Financials TR Index (£)	-5.10	-12.81	-11.32	-4.28	-26.62	-29.76	-16.32	-4.82	7.08	24.66	4.16	17.74	-21.32

Top 10 holdings

31-07-08	(%)	29-08-08	(%)	30-09-08	(%)
▶ HSBC	6.30	▲ Man Group	6.40	▶ EUX DJ EURO STOXX INS 600 12/08	5.68
▼ Man Group	5.95	▲ DNB	5.43	▲ HSBC Holdings	5.38
▼ Temenos Group	4.68	▲ Temenos Group	5.30	▶ Oester Kontrol Bank 4.125% 2009	5.22
▲ DNB	4.66	▶ US Treasury 3.625% 2013	5.26	▲ Zurich Financial	4.65
▼ ICAP	4.46	▲ ICAP	4.81	▲ Swiss (Govt) 3.5% 2010	4.25
▶ Intesa	3.34	▲ Intesa Sanpaolo	4.06	▼ Intesa Sanpaolo	4.04
▲ Allianz	2.90	▲ Allianz	3.97	▲ DNB Holding	3.85
▲ Munich RE	2.87	▲ Munich RE	3.58	▶ Landwirtschaft Rentenbk 5.5% 2009	3.59
▼ Baloise	2.87	▲ UK Treasury 4.75% 2010	2.91	▶ European Investment Bank 4% 2009	3.44
▲ National Bank of Canada	2.76	▲ Banco Santander	2.57	▶ European Investment Bank 4.5% 2009	3.39
Total of Top Ten	**40.79**	**Total of Top Ten**	**44.29**	**Total of Top Ten**	**43.49**
Total holdings	**70**	**Total holdings**	**63**	**Total holdings**	**90**
Cash & other	**24.45%**	**Cash & other**	**28.52%**	**Cash & other**	**47.89%**

Key: ▶= new holding; ▲= increased holding; ▼= decreased holding; - = no change

Market capitalisation (%)



Stock level contribution – most contributing (%)

Category	Fund Weight	Index Weight (FTSE Global Financials)	% Return Fund	Index % Return (FTSE Global Financials)	Total
New Star Global Financials USD	1.90	0.00	995.64	0.00	**1.82**
New Star Global Financials EUR	4.00	0.00	23.07	0.00	**0.61**
US TREASURY NOTE 3 5/8% 15/05/13	0.90	0.00	17.43	0.00	**0.42**
UNICREDIT	0.04	0.99	-33.11	-33.49	**0.31**
ZURICH FINANCIAL SERVICES	1.56	0.65	-0.34	18.69	**0.31**

Stock level contribution – least contributing (%)

Category	Fund Weight	Index Weight (FTSE Global Financials)	% Return Fund	Index % Return (FTSE Global Financials)	Total
FIRST GULF BANK	2.43	0.00	-92.43	0.00	**-2.26**
MAN GROUP	5.83	0.34	-41.33	-44.90	**-2.16**
DNB NOR	4.13	0.21	-31.47	-34.09	**-1.63**
TEMENOS GROUP	4.83	0.00	-31.22	0.00	**-1.61**
SBERBANK OF RUSSIA	2.04	0.00	-46.17	0.00	**-1.15**

Data source: HSBC

New Star Global Financials Fund

Quarter ended 30 September 2008

Fund statistics

	Alpha	Beta	Tracking error*	Correlation	Sharpe ratio*	Standard deviation (%)*	Av P/E multiple**	Av dividend yield (%)**
Fund (£)	0.73	0.70	12.12	0.73	0.37	16.02	7.71	5.19
Index (MSCI World Financials TR £)	0.00	1.00	-	1.00	-0.26	16.64	9.38	4.69

All data since inception unless otherwise stated
* Annualised figures
**Weighted average over three years

Return statistics

	Fund (£)	Index (MSCI World Financials TR £)
Weekly		
Average (%)	0.25%	-0.02%
Median (%)	0.56%	0.15%
Skew	-0.12	-1.19
Kurtosis	3.40	9.38
Monthly		
Average gain (%)	3.89%	3.15%
Average loss (%)	-3.77%	-4.00%
Gain to loss ratio	1.03	0.79
Positive months (%)	61.73%	58.02%
Negative months (%)	38.27%	41.98%
Up months (%)	85.11%	
Down months (%)	70.59%	
Cumulative/Since Inception		
Up capture (%)	109.66%	
Down capture (%)	77.82%	

Glossary

Average return - An arithmetic mean of returns on an investment.

Median - The midpoint of a range of numbers that are arranged in order of value. This is useful when dealing with a set of numbers that could be skewed by outlying values.

Skew - Characterises the degree of asymmetry as opposed to symmetry of the distribution around the mean. A positive skew indicates a distribution towards more positive values while a negative skew indicates a distribution towards more negative values.

Kurtosis - A statistical measure used to describe the distribution of observed data around the mean. It is sometimes referred to as the “volatility of volatility” and characterises the relative steepness or flatness of a distribution compared with the normal distribution. Positive kurtosis indicates a relatively peaked distribution - in other words one with a sharper “peak” and fatter “tails”; negative kurtosis indicates a relatively flat distribution - one with a more rounded “peak” with wider “shoulders”.

Average gain - An arithmetic mean of the periods with a gain.

Average loss - An arithmetic mean of the periods with a loss.

Gain to loss ratio - A ratio of the average gain in gain periods divided by the average loss in losing periods.

Positive months - The percentage of months with positive returns among all the months over a given time period, calculated as the number of positive months divided by the total number of months.

Negative months - The percentage of months with negative returns among all the months over a given time period, calculated as the number of negative months divided by the total number of months.

Up months - A measure of the number of periods that a fund was up, when the benchmark was up, divided by the number of periods that the benchmark was up. A larger ratio indicates better performance of the fund.

Down months - A measure of the number of periods that the fund was down when the benchmark was down, divided by the number of periods that the benchmark was down. The smaller the ratio, the better.

Up capture - A measure of the investment's compound return when the benchmark was up, divided by the benchmark's compound return when the benchmark was up. The greater the value, the better.

Down capture - A measure of the investment's compound return when the benchmark was down, divided by the benchmark's compound return when the benchmark was down. The smaller the value, the better.

Fund at a glance

Fund aim:

Long-term capital growth principally through investments in the securities of financial services companies both in the UK and internationally.

Investment style

- Alpha generation driven.
- Stock-specific approach with a macroeconomic overlay, with stock selection being the principal driver of the portfolio construction.
- Large cap biased fund.

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Launch date	28.12.2001
Base currency	Sterling
Minimum investment and holding	£1,000 lump sum
Management fee	1.5% per annum
Subscription fee	Up to 5.25%
Redemption/ switching fees	Nil
Valuation	Daily
Subscriptions/ redemptions	Daily
NAV publications	FT, Morningstar www.newstaram.com
ISIN	GBP : GB0031919342
Sedol	3191934 (Retail) 3191923 (Institutional)

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Quarter ended 30 September 2008

Quarterly overview

The New Star Global Financials Fund fell 15.91% in sterling terms during the third quarter of 2008 while the MSCI World Financials Total Return Index (£) gained 1.03% and the FTSE Global Financials Total Return Index (£) fell 5.10%.

The quarter was characterised by unusual volatility, a strong recovery in the dollar and large swings in sentiment towards financial stocks. In July and August, there was a relief rally for banks, especially US banks, as a result of better-than-feared earnings, progress on the US housing bill, new rules surrounding naked short positions and an unwinding of the long commodities/short financials hedge fund trade that dominated the first half of the year.

September, however, was the most traumatic month for financial stocks since the 1930s. Early in the month equities rallied after the US Treasury Secretary unveiled plans to nationalise the two key US mortgage institutions, Fannie Mae and Freddie Mac. Over the following weeks, however, the insolvency of Lehman Brothers and the part-nationalisation of AIG sent financial equities significantly lower. Equities rallied again when the US Treasury announced plans to set up a state-funded “troubled asset relief programme (TARP)” to buy toxic/illiquid assets from banks while the UK's Financial Services Authority became the first regulator to ban short selling of the shares in a list of UK-incorporated holding companies of banks and insurers. The quarter ended, however, with a final shock when the US House of Representatives' rejected TARP, triggering one of the market's worst daily falls. Congress approved the TARP in early October but a series of financial failures, rescue takeovers and nationalisations has hit markets hard despite action by central banks to provide emergency liquidity. State recapitalisation plans for the banking system were then announced, initiatives that should ensure the sector's solvency and restore investor confidence.

Performance

The fund underperformed its benchmarks over the quarter for three main reasons. First, it had a bias towards more defensive stocks, with the result that it missed out on the sector's rally in July and August. The high cash weightings and holdings in supranational financial bonds remained at the quarter end, however, with the aim of protecting the fund's capital.

Secondly, performance was hindered by falls among core holdings such as Munich Re, the insurer, and Man Group, the hedge fund company. Insurers suffered in the summer from a profit warning from Munich Re after its equity investments lost more than 20% in six months. Man weakened in August after worse-than-expected performance from its main fund, AHL. The fund had been hit by the reversal of the popular long commodities/short financials hedge fund trade.

Lastly, the fund suffered in September after it increased its domestic bank holdings such as Royal Bank of Scotland following the Freddie Mac/Fannie Mae bail-out.

Investment themes for 2008

With the global banking sector still traumatised, stock selection will be critical. Poorly capitalised universal banks still face the risk of nationalisation while well capitalised banks such as Wells Fargo or HSBC, with diversified revenues, strong retail franchises and funding bases, are best placed to survive and benefit from market share gains. Even after the bailout, the banking sector will face challenges on several fronts. Banks will still need to de-leverage, loan books may either rise only slowly or actually contract, bad debt charges may continue rising, increased regulation is virtually inevitable and more bank failures are likely.

With conditions so volatile, investors will find it particularly difficult to bottom-fish based on a view of the direction of the economy or the equity market. In response to such circumstances, the fund ended the quarter with minimal holdings in institutions exposed to leveraged businesses, consumers and economically-challenged regions such as Eastern Europe. This largely ruled out investment banks and meant it had little exposure to mortgage banks in the US, UK, Spain and Ireland.

It is possible, however, for a fund with a global reach to invest in a diversified portfolio of attractively-valued stocks with defensive qualities. Stocks with potential include diversified insurers that have strong balance sheets and trade on modest multiples. Munich Re is one example. There is still, however, need for caution because equity markets are likely to remain weak and volatile in the short term.

Outlook

Economic conditions are likely to deteriorate over the coming months, with unemployment rising, and corporate profits will be vulnerable. There are, however, reasons for longer-term optimism. Inflationary pressures are set to ease and economic contraction should trigger monetary loosening by the Bank of England and the European Central Bank. Historically, banks have tended to outperform when investors expect interest rate cuts and an increasing gap between depressed short-term interest rates and higher longer-term rates.

Over the next few months, banks may not do too badly relative to other sectors because of the de-rating they have already experienced. If the economy deteriorates more than is forecast, cyclical and more volatile sectors will fall further. In such a climate, banks may outperform on a relative basis, given that they have fallen a long way and their share prices already reflect difficult economic conditions.

That said, the drive to preserve capital and avoid further losses could make banks ultra-cautious and push consumers to save more and borrow less.