Manager's Report

Performance

	1 Jul 2005 to 30 Dec 2005	1 Jul 2006 to 29 Dec 2006
New Era PRC Fund	6.03%	39.88%
Benchmark: MSCI China Free Index	13.79%	47.83%

The Chinese markets performed very strongly in the second half of 2006 driven by abundant liquidity and very positive sentiment. A number of initial public offerings (IPOs) were heavily oversubscribed and performed very well in the aftermarket.

Early in the period the markets performed moderately and with the oil price very high in July the Chinese oil majors, CNOOC and PetroChina, outperformed. In August the interim results season was ahead of expectations and liquidity flows into Hong Kong remained robust as the renminbi continued to appreciate against the US dollar.

From September the markets began to perform very strongly on abundant liquidity and rising risk appetite. A series of initial public offerings were very well received and performed very strongly. These were focused in particular in the Chinese banking sector with the flotation of China Merchants Bank, and then Industrial and Commercial Bank of China, which was the largest IPO in history. These deals were very heavily oversubscribed and were associated with buoyant retail investor sentiment. There are concerns that investors are paying too high a price for some of these IPOs and it is necessary to focus on the higher quality issues.

The Chinese and Hong Kong economies continued to grow strongly with GDP growth of 10.4% and 6.8% for the third quarter of 2006. Some concerns remain about the Chinese economy, in particular the very high growth of fixed asset investment and bank lending to the property and construction sectors.

As macro demand remains uncertain and the impact of high oil prices is still to be seen, we remain cautious about taking too strong a view on economic growth. Instead, we are focusing on companies which can generate growth even in a slow global environment. The long-term Chinese and broader Asian outsourcing picture remains intact, despite some short-term uncertainty due to renminbi appreciation. We believe that domestic consumption will be the key driver for both the economy and the stock market over the next few years and maintain our significant exposure to consumption stocks.

Although the market has rallied on expectations that interest rates are peaking, we believe such an assumption is premature. We continue to see higher production costs and oil prices putting upward pressure on global inflation.