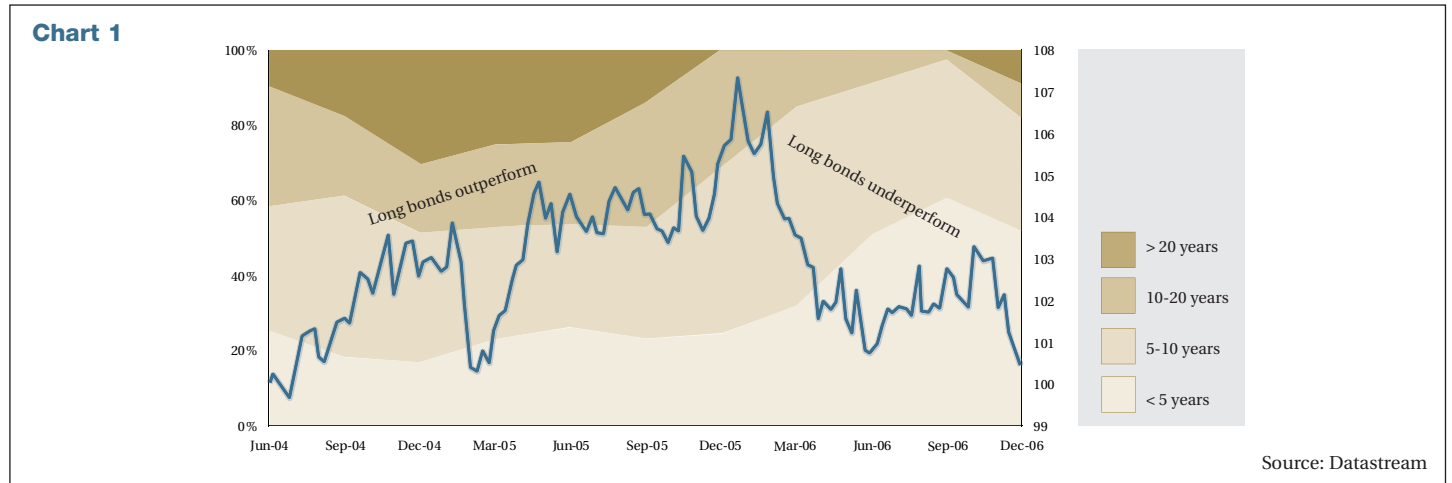


Bond maturity within the Newton Phoenix Fund

In May of last year we commented on our approach to bonds within the Phoenix fund. An update seems appropriate.

The chart below shows the maturity profile of the bonds in the Phoenix fund over the last year and a half (the gold shading), as well as the performance of the UK gilt market (the blue line). Gilts performed well from June 2004 until January 2006 then fell back. One point to highlight is that this chart is a capital return chart, the total return chart is rather more comforting, but the conclusions are the same.



As you can see, at the beginning of the period, we followed our normal diversified approach of maintaining a balance between bonds of different maturities. This changed at the end of 2005 when we sold long dated bonds and increased exposure to shorter dated bonds.

This move proved very beneficial when bonds fell in 2006. More recently, we have introduced a AAA rated long-dated US bond (currency hedged).

Current Positioning

Yield curves for three bond markets are shown in chart 2 - these show how the yield for each bond market changes as the maturity changes. For example, the blue line is the UK gilt market. Buyers of a one year gilt receive a yield of 5.4% whilst buyers of a 30 year gilt receive a yield of 4.3% – a steeply inverted yield curve. US treasuries (red) look similar to UK gilts for the first three years but then the US yield curve flattens significantly and holders of 30 year bonds receive a better yield than holders of three year bonds. The European bond market (green) is very different showing a steady rise in yields as maturities increase. Our response has been to place approximately 4% of the total fund (about 12% of our cash and bond exposure) in one year certificates of deposit at yields of around 5.8% (higher than gilts because the issuing bank has a lower credit rating than the UK government).



Given the shape of these yield curves, we have turned our attention overseas over the last year and the portfolio now holds Euro, US Dollar and South African Rand bonds alongside the vast majority of bonds which are sterling denominated. It is worth emphasising again that all our non-sterling bonds are currency hedged.

The bond portion of the fund will continue to act as the lower volatility, income producing part with returns lower than those that equities are capable of producing. However, we will continue to be active in managing this portion.

Philip Collins February 2007

Risk factors

Past performance is not a guide to future returns. The value of investments and the income from them can fall as well as rise and investors may not get back the original amount invested. The value of overseas securities will be influenced by fluctuations in exchange rates. Part of the Fund may be invested in sub-investment grade bonds that typically have a low credit rating and carry a high degree of default risk, which can affect the capital value of your investment. As the Fund has exposure to hedge funds, gold, private equity and property via publicly quoted transferable securities, there are additional risks associated with these sectors.

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