Newton Bridge Fund

Investment Report - Fourth Quarter 2009

➢ A BNY MELLON ASSET MANAGEMENT COMPANY[SM]

NEWTON
The Power of Ideas

Contents

Fund information

Long-term track record

The Newton Bridge Fund has returned 145.8% since launch (30 November 1996), which is equivalent to 7.1% per annum. This is an outperformance of 1.7% per annum compared to the fund's benchmark. For more detail on the fund's long-term performance, please refer to page 4.

Aim

To achieve capital growth over the long term through a portfolio that is predominantly invested in equities, across a wide range of industries and countries. The equity element is balanced by cash, bonds and exposure to alternative assets, such as hedge funds, to reduce the overall volatility of the portfolio.
The fund is managed in line with the Newton Private Investment Management Growth Model. The central asset allocation for the model is 70% invested in global equities and 30% invested in other asset classes which may include bonds, cash, hedge funds, structured products and property.

Expected characteristics

Return: Significantly above cash over the long term; variable in the short term.

Volatility of return: Medium. Investors can expect to experience significant fluctuations in the value of their holding, driven to a large extent by rises and falls in equity markets.

Income: Low, but the dividend is likely to grow over the long term.

Performance references

Central Asset Allocation Growth (benchmark), ARC Sterling Equity Risk, WM Private Client Growth Indicator.
The Central Asset Allocation Growth benchmark comprises of 40% FTSE All Share, 30% FTSE World ex UK, 10% FTA Govt All Stocks, 10% ML Sterling Non-Gilts & 10% 1 month £ LIBOR.

Risk profile

Suitable for investors with a medium risk profile.

Fund facts

Fund size (millions):	GBP 291	Ex dividend dates:	31 Jan, 31 Jul
Annual management charge:	0.8%	Pay dates:	2 business days before 31 Mar, 30 Sep
Total expense ratio:	0.83%	Last distribution:	2.7885p per unit
Base currency:	GBP	ISIN	GB0006441181
Dividend yield:	2.4%	Sedol	0644118

Focus on the latest quarter

Performance over three months

Newton Bridge Fund	4.2%				
Central Asset Alloc (Gwth)	3.0%	ARC £ Equity Risk (est)	3.1%	WM PCI Growth	3.6%
FTSE All Share	5.5%	FTSE W World (ex UK)	3.2%	FTA Govt All Stocks	-2.0%

Source: Lipper, WM, ARC & Datastream, as at 31 December 2009. Calculation basis: Sterling, total return, bid to bid, without initial charges, net income reinvested, net of management fees.

Major contributors to relative performance

Positive	%
Barclays PLC (not held)	0.30
BHP Billiton PLC	0.22
Vale SA	0.16
Bilfinger Berger AG	0.15
Petroleo Brasileiro SA	0.15

Negative	%
FTSE 100 Index.Mar10 5100 (Put Option)	-0.42
Rio Tinto PLC (not held)	-0.25
Corinthian Colleges Inc	-0.20
Sprint Nextel Corp	-0.15
CF Mngrs Morant Wright Japan B Acc GBP	-0.14

Significant transactions

Acquisitions
Anglo American PLC
Transocean Ltd.
Suncor Energy Inc.
Principal Financial Group Inc.
GE Capital UK Funding 5.875% Bds 4/11/2020

Disposals
Treasury 4.25% Stk 7/06/2032
Vale SA
Halliburton Co.
Goldman Sachs Group Inc.
Marks & Spencer PLC 6.375% EMTN 7/11/2011

Note: Portfolio holdings are subject to change at any time without notice and should not be construed as investment recommendations.

Fund manager report

As market sentiment has swung between complete despair and euphoria, we have tried to navigate our way through 2009 with caution and consideration, continuing to draw on our global themes. The path has not been smooth or easy; however we are able to report that the Bridge fund provided a return of 19.9% for the year, an out performance of 1.2% against its benchmark. This strong double digit return is an outcome that would have been seen as an overly optimistic and foolhardy prediction back in January 2009, although it demonstrates the support provided by the various globally coordinated initiatives to stabilise the financial sector.

For the year as a whole, out performance has been driven by strong positioning in bonds, especially through our exposure to Norwegian government, UK index linked and corporate bonds. Within equities, our avoidance of various UK and US banks positively impacted on relative performance, notwithstanding the strong rally in the summer months. Exposure to emerging market growth was the common factor behind all, except one (Sprint Nextel), of the top ten positive contributors to performance which included Petrobras, BHP Billiton, DBS and Millicom. Strong performance from hedge funds was driven by growth in the net asset values and a lessening of the discount to net asset value which had hindered performance in 2008.

As the year progressed, the allocation to equities was increased, reflecting greater confidence in the recovery and stabilization of the real and financial economies. This trend continued in the fourth quarter with purchases of Hypermarcas, Rossi Residential, Transocean, Suncorp, Anglo American and Lazards. Hypermarcas is a Brazilian consumer staples company, focused on non-prescription

(OTC) drugs, Personal Care, Household Products and Food. It specialises in acquiring Brazilian regional brands in these categories which have been held back by under-investment, and the company has made over 20 acquisitions in the past 8 years. Its target market of these brands is C-class consumers (mid and low income segment) who are benefiting from GDP growth and favourable government policies, and are buying branded packaged goods with their new wealth. The key product areas have seen a strong double-digit growth in recent years and this is expected to continue.

The sales we made during the quarter were generally of shares that we felt were trading at insufficiently attractive valuations, following a strong recovery, such as Vale, XTO energy and Goldman Sachs. Goldman Sachs shares have been very strong on the back of a sharp recovery in trading revenues and a less competitive environment resulting from the demise of several investment banks and the capital constraints faced by some of the survivors. The shares are no longer compellingly valued, and we have become increasingly uncomfortable with remuneration policy at the bank and the political and popular attention it is attracting.

The only asset class that delivered a negative return over the quarter was UK Government bonds. We continue to be wary of the near term outlook for this asset class given the need for the government to fund the deficit and the movement towards the end of quantitative easing, which essentially provided a buyer of last resort in the Bank of England. We have continued to reduce exposure to bonds with the sale of the 2032 Gilt and Marks and Spencer 2011 bond.

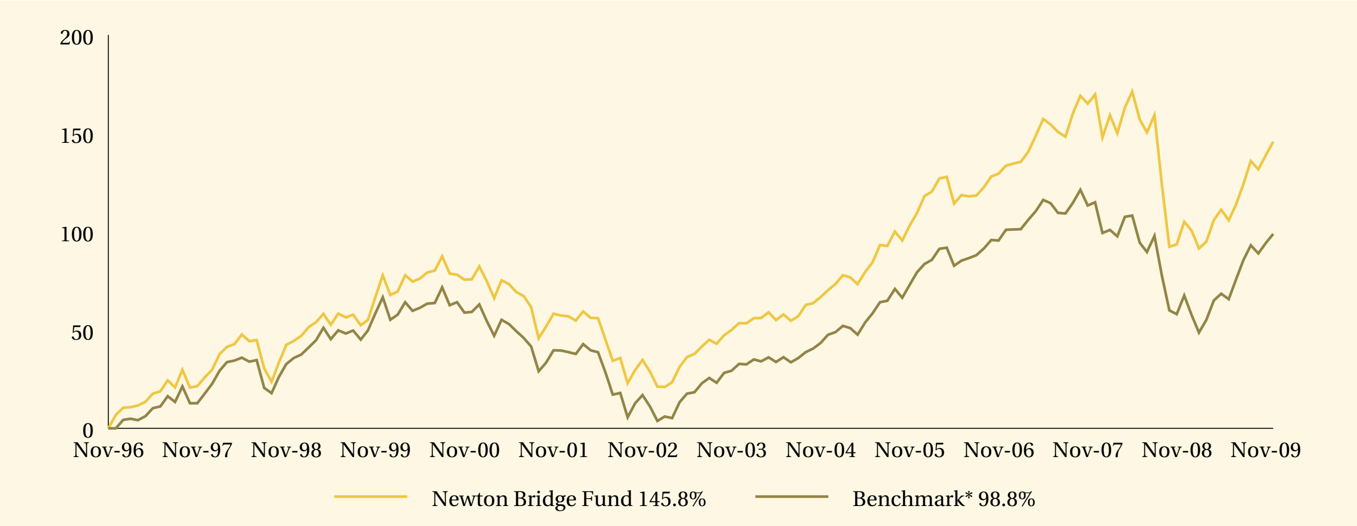
Although the world economy has clearly improved during the last year, the unwinding of credit bubble excesses may yet constitute a significant headwind for years to come. Much of the developed world remains burdened by high levels of debt (and future unfunded liabilities), and deteriorating public finances are calling into question the creditworthiness of sovereign borrowers. Central bankers appear to be in denial about their role in fuelling the bubble in the first place, with the result that current policy may simply be storing up further problems for the future; and large distortions are still apparent in exchange rates and world trade. In the Fund we retain a large number of investments that were left behind by the market recovery in 2009, but should provide some stability if this rally peters out. We also retain exposure to certain developing economies, which we believe are in a healthier condition than much of the developed world, but are nonetheless ready to sell these investments if their valuation becomes excessive.

Fund management team:

Caroline Lindsay and Julie-Ann Ashcroft

Long-term performance

Performance since launch



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Newton Bridge Fund	-1.2	-10.5	-18.2	19.2	10.9	23.0	11.5	15.5	-24.0	19.9
Benchmark*	-4.5	-12.3	-20.5	19.6	11.2	21.5	12.1	6.9	-22.1	18.7

Discrete past performance - percentage change

From	31/12/04	31/12/05	31/12/06	31/12/07	31/12/08
To	31/12/05	31/12/06	31/12/07	31/12/08	31/12/09
Newton Bridge Fund	23.0%	11.5%	15.5%	-24.0%	19.9%

Source: Lipper, WM & Datastream, as at 31 December 2009. Calculation basis: Sterling, total return, bid to bid, without initial charges, net income reinvested, net of management fees.

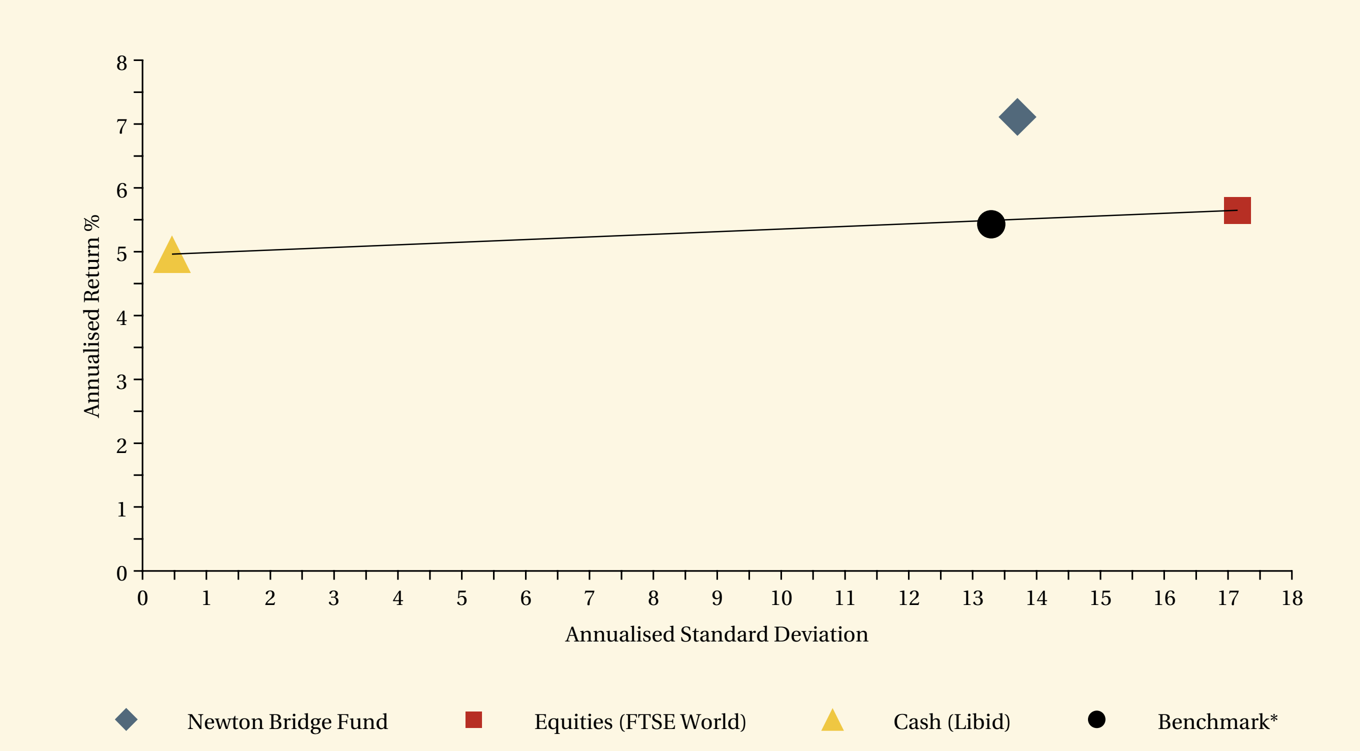
*The benchmark to 31 March 2009 was WM PCI Growth. Thereafter it is the Central Asset Allocation Growth. The Central Asset Allocation Growth benchmark comprises of 40% FTSE All Share, 30% FTSE World ex UK, 10% FTA Govt All Stocks, 10% ML Sterling Non-Gilts & 10% 1 month £ LIBOR.

Risk factors

This is a financial promotion and is not intended as investment advice. 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. If the portfolio invests in sub-investment grade bonds that typically have a low credit rating these carry a high degree of default risk, which can affect the capital value of your investment. If the portfolio has exposure to hedge funds, gold, private equity and property via publicly quoted transferable securities, there are additional risks associated with these sectors.

Long-term performance - risk and reward

Fund return and volatility since launch



This chart shows both return and volatility. The Newton Bridge Fund has given a higher return than cash, world equities and the benchmark with slightly higher volatility than that of the benchmark. The launch date of the fund was 30 November 1996.

Risk and return since launch

	Annualised Return	Volatility	Sharpe ratio
Newton Bridge Fund	7.1%	13.7%	0.2%
Benchmark*	5.4%	13.3%	0.0%

Source: Lipper, WM & Datastream, as at 31 December 2009. Calculation basis: Sterling, total return, bid to bid, without initial charges, net income reinvested, net of management fees.

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Newton's investment process

Newton is a global thematic stock picking company. Our style is inclusive and relies on effective communication between all of our investment personnel.

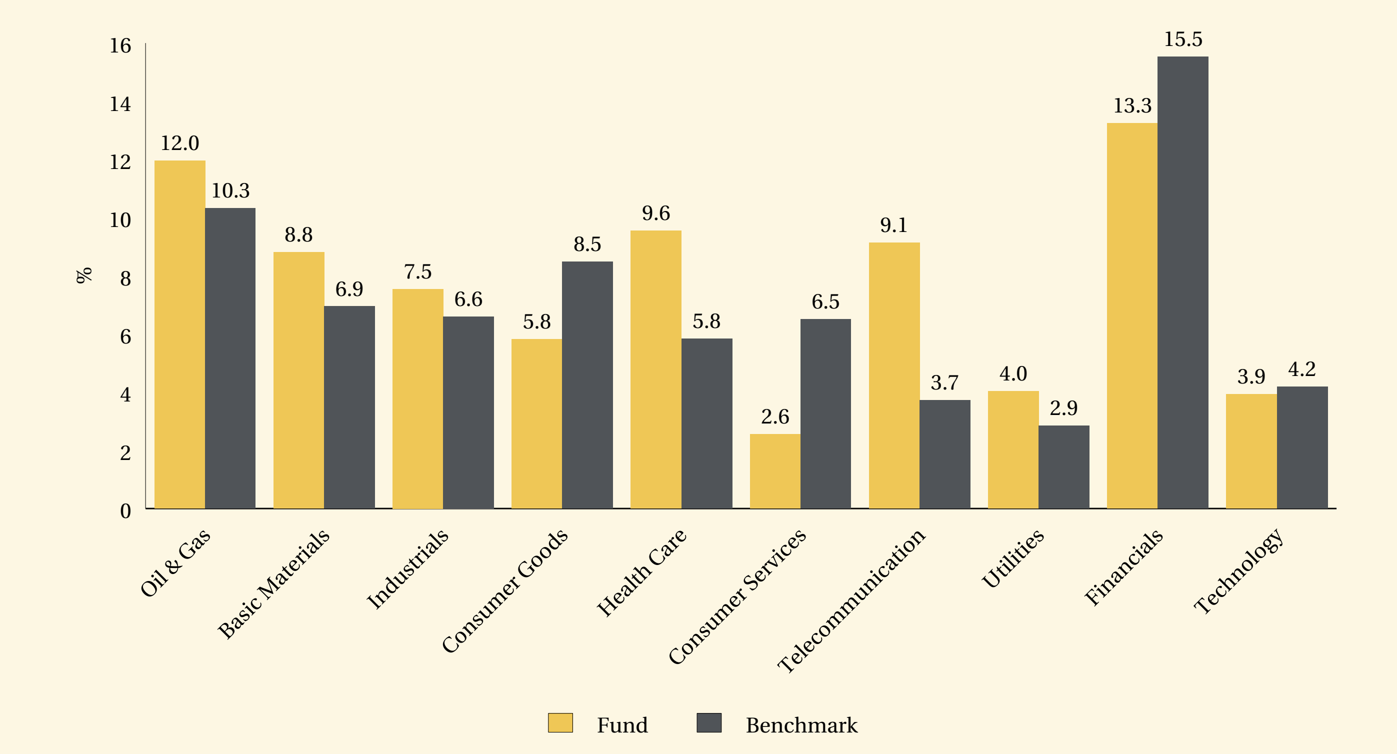
Strategy groups	Representatives from the strategy team, fund managers and research analysts identify global themes and formulate our economic view.
Research team	Global sector analysts, supported by fund managers, identify investment opportunities within the thematic backdrop.
Fund management	Fund managers debate with analysts the appropriate valuations for purchases and sales, then construct portfolios to match up Newton's investment thinking with client objectives and risk profile.

Several of these themes are listed below, along with examples of individual holdings.

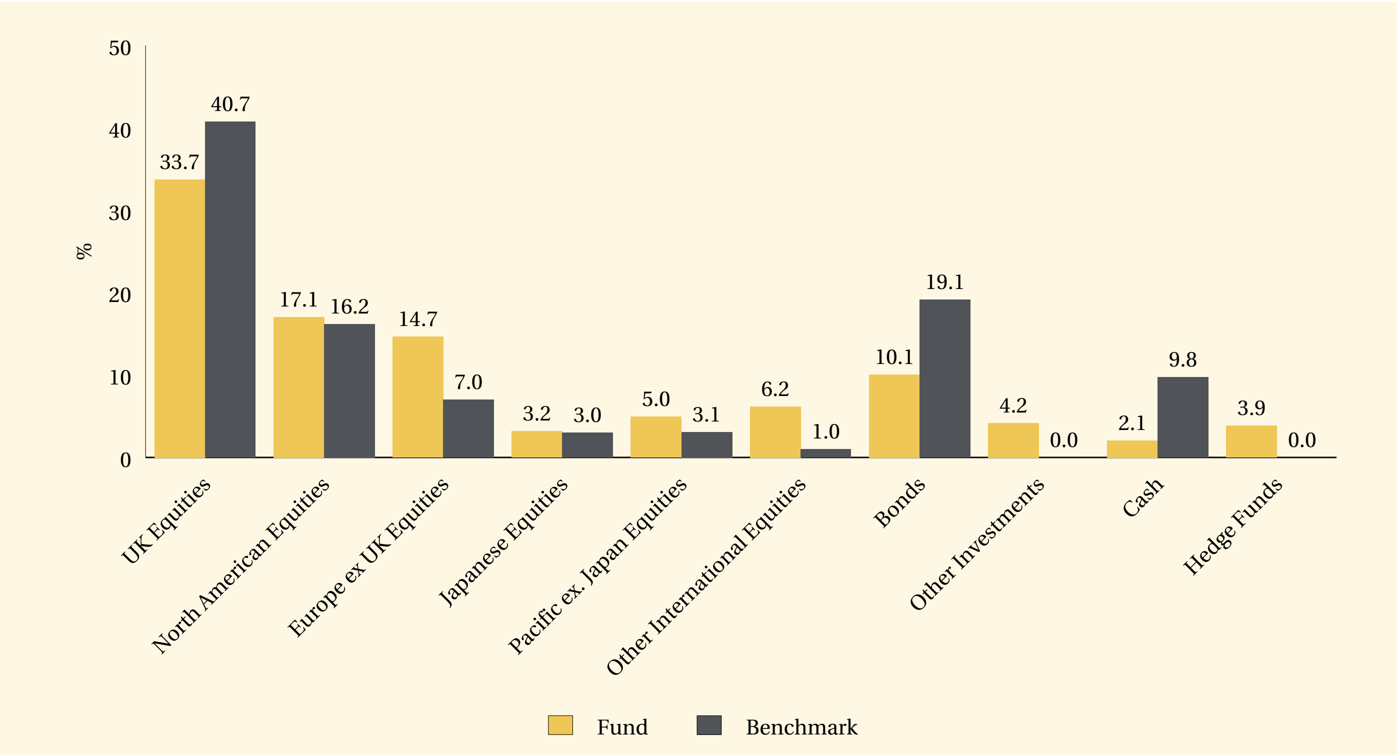
Theme	Factors	Investments
All Change	The previously benign period of stable growth, low inflation, and easy credit, which allowed private sector debt and financial leverage to grow to unsustainable levels (as described in a previous theme, "Becalmed") has come to an end. When assessing investments we assume that access to credit will remain difficult, which favours companies with limited financing requirements and argues against exposure to highly-indebted customers.	Amlin, Barrick Gold, Cobham, DBS Group Holdings, Microsoft, Novartis, Scottish & Southern, Tesco Corporate Bonds
Developing Economies	The influence of the developing world on the global economy continues to grow, and developing economies ultimately are on a convergence course, in terms of demographics and consumption trends, with the industrialised world. This long-term secular trend will depend on the development of Western-style health and social security systems and will involve significant cyclical influences as well as frictions regarding trade policies.	China Railway Construction, Cia Saneamento de Minas Gerais, Hypermarcas, Millicom, Petroleo Brasileiro, Tele Norte Leste
Energy Supply	Following decades of underinvestment in oil and gas infrastructure, surplus production and refining capacity is limited. Despite weak demand currently, forecast supply of energy implies a structurally higher real oil price.	Acciona, BG, Petroleo Brasileiro, Suncor, Transocean
More Government	The financial crisis and the recession that has followed in its wake have sharply reversed the trend of reducing the role of the state in the economy, especially in the developed world. With bigger government comes more regulation, higher taxes and the prospect, ultimately, of slower growth and higher economic volatility; local interests will take priority over global. The magnitude of the recent stimulatory policies may have sown the seeds for future inflationary pressures and the unpredictable nature of state intervention increases the risks in all asset classes.	Barrick Gold, Bilfinger Berger, China Railway Construction, Index-linked Gilts, QBE Insurance Group, Rossi Residential

Fund analysis

Equity weightings by industry



Regional and asset class weightings



Source for all charts: Newton, as at 31 December 2009.

Glossary

ARC Private Client Indicators
ARC Private Client Indicators are unique in that they are based on actual (as opposed to model) client portfolio returns provided by various investment management companies. These portfolio returns are allocated to one of four categories ("Cautious", "Balanced Asset", "Steady Growth" and "Equity Risk", in order of increasing volatility) based on the volatility of the returns relative to world equities, and an average return is calculated for each category. This is a departure from the traditional approach of comparing the performance of portfolios with similar asset allocations. It assumes that investment managers may use whatever asset allocation they deem appropriate to achieve the desired levels of return and volatility.

Bonds
Tradable debt issued by governments, quasi government bodies or companies. Interest is usually fixed until maturity and paid either annually or semi-annually. The bond (debt) is repaid by the issuer at maturity.

Derivatives
Instruments of a fixed maturity, the price of which is dependent upon the price of an underlying asset or variable: most commonly an interest rate, an index, a currency, an equity, a bond or a commodity. Depending on the type of instrument used, derivatives can provide the opportunity to benefit from a fall in the price of the underlying asset or from a rise. Different derivative strategies can therefore be used to hedge exposure to the underlying and to gain exposure to the underlying. Derivatives include futures, forwards, options and swaps.

Dividend yield
The annual income (dividend) received from an equity or an investment fund divided by the price of the equity or the fund, expressed as a percentage. Dividends are typically paid semi-annually.

Equity
Also known as a company share. A security that gives the holder fractional ownership of a company. Equities usually confer the right to vote at shareholder meetings and to receive a dividend if one is paid.

Hedge funds
Unregulated funds with wide investment powers, which typically include the ability to hold short positions (ie, selling an asset the fund does not own in order to profit from a fall in the asset's value), and to use leverage (ie, borrowing to invest, which magnifies profits and losses). There are an enormous number of possible investment strategies. For our clients Newton gains exposure to these funds mainly by investing in listed investment trusts and companies that invest in hedge funds.

IMA sector averages
The Investment Management Association (IMA) classifies pooled funds with similar objectives into broad sectors (eg, Global Growth, Active Managed, UK All Companies). The average performance of all the funds within a sector is calculated over various time periods to provide investors with a performance comparator.

Index-linked bonds
Bonds with interest and capital repayment linked to inflation.

Performance reference
In the context of investment funds, a measure or measures against which the performance of a fund or portfolio can be compared. These tend to be either an index, a combination of indices, or a peer group of comparable funds.

Glossary

Property

In this context we are referring to investment in commercial property. Exposure to this asset class is achieved through investment in property investment trusts and REITs.

Risk

In this context we define risk as the volatility (ie, variability) of returns, as measured by standard deviation.

Risk profiles – Newton definitions

Medium risk: appropriate for clients who are seeking a return in excess of inflation over the long term and are willing to take capital risk to achieve objectives. Portfolios are well diversified (directly, or indirectly through pooled funds) but may contain a high allocation to a single asset class, such as equities.

High risk: appropriate for clients who are willing to take significant capital risk to achieve objectives. This category includes portfolios containing only equities, and those containing significant exposure to high-risk funds, smaller companies, venture capital or private equity. It also includes portfolios that are made up of concentrated lines of stock, which reduces the level of diversification.

Sharpe ratio

A measure of risk-adjusted return. The excess return (in this case, the return above cash) is divided by the standard deviation of returns. A higher number suggests a more efficient mix of returns and volatility.

Standard deviation

A statistical measure of the variability of returns. The higher the number, the greater the variability of returns. For a normally distributed set of data, 68% of the returns are forecast to occur within one standard deviation of the average, 95% within two times the standard deviation. For example, two investments have an average return of 5%, investment A has a standard deviation of 5% and investment B has a standard deviation of 2%. In 68% of cases, we would expect investment A to return between 0% and +10% (average return of 5% +/- 5% standard deviation) and investment B to return between 3% and 7% (5% +/- 2% standard deviation).

Total expense ratio

The total costs of the fund, made up principally of the annual management charge, but also including operating costs such as legal, administration, trustee and audit fees.

Volatility

In this context the variability of investment returns, as measured by the standard deviation. The higher the figure the more variable the return of an investment.

WM private client indicators

The WM Company surveys investment companies to ascertain the exposure of their principal private client model portfolios by asset class (eg, equities, bonds, hedge funds, etc) and geography. From this they derive an average portfolio in each of the categories “growth”, “balanced” and “income”. The appropriate market index return (eg, FTSE All Share, FTSE Government All Stocks) is then applied to the various elements of the three representative portfolios to generate a benchmark return for each category.

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