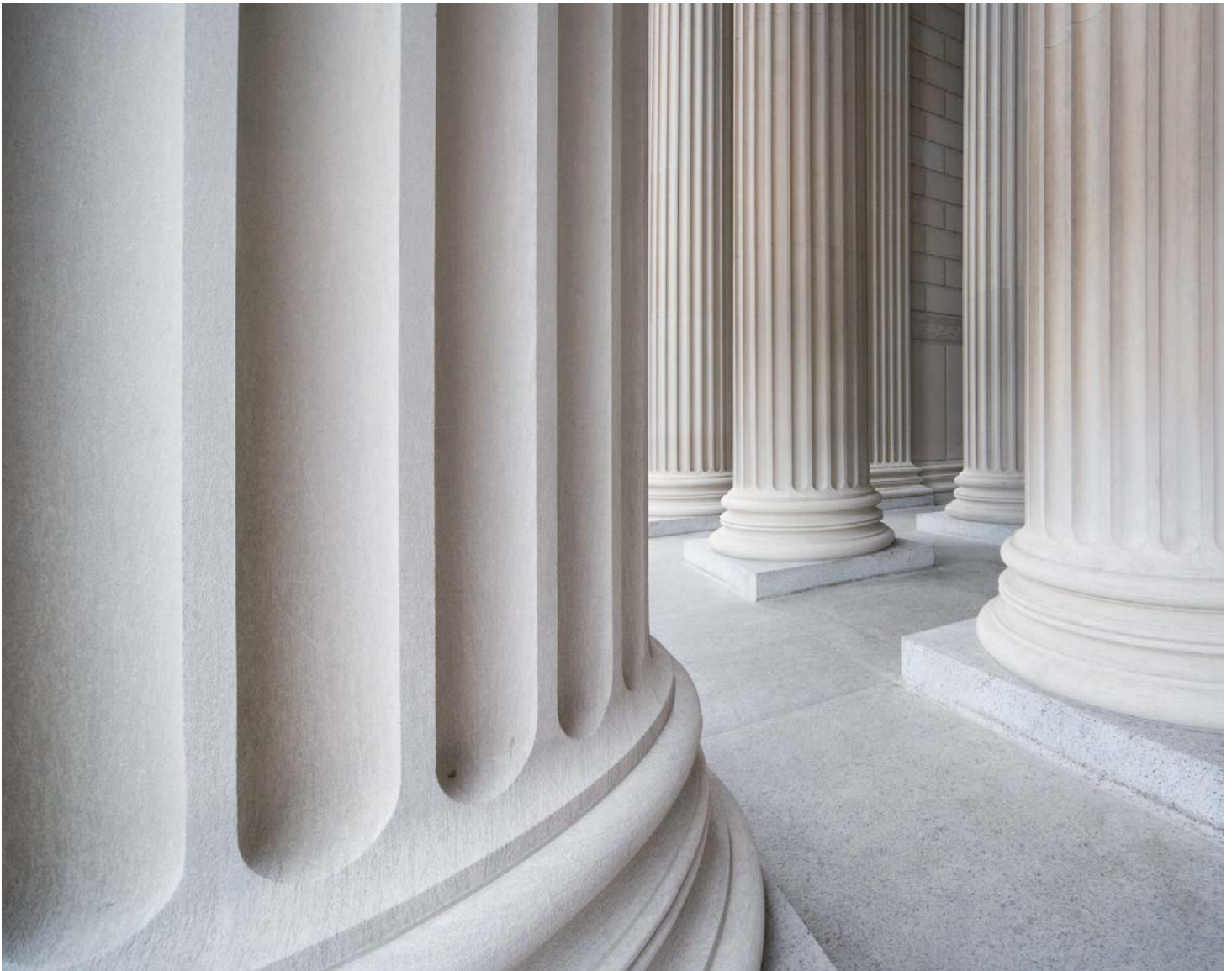


Newton Real Return Fund

Investment Report - First Quarter 2010

▶ A BNY MELLON COMPANYSM

NEWTON
The Power of Ideas



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Fund information

Long-term track record

The Newton Real Return Fund has returned 91.5% since relaunch (31 March 2004), which is equivalent to 11.4% per annum. This is an outperformance of 3.0% per annum compared to the fund's benchmark. For more detail on the fund's long-term performance, please refer to page 4.

Prior to 30 June 2009, the Fund was called the Newton Absolute Intrepid Fund.

Aim

To achieve capital growth in sterling terms over the long term from an unconstrained, actively managed multi asset strategy. The manager of the Fund has maximum flexibility at the asset allocation level and emphasis is placed on long term investing. The Fund is intended to have lower absolute volatility than traditional equity biased funds, but will exhibit volatility relative to its benchmark.

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: Medium, and the dividend is likely to grow over the long term.

Performance references

1 month £ Libor +4% p.a. (benchmark), ARC £ Steady Growth, IMA Absolute Return.

Risk profile

Suitable for investors with a medium risk profile.

Fund facts

Fund size (millions):	GBP 1,215	Ex dividend dates:	01 Jan, 01 Jul
Annual management charge:	1.0%	Pay dates:	28 Feb, 30 Sep
Total expense ratio:	1.12	Last distribution:	3.6547p per unit
Base currency:	GBP	ISIN	GB0006780323
Dividend yield:	3.3%	Sedol	0678032

Focus on the latest quarter

Performance over three months

Newton Real Return	2.0%				
1 month £ Libor +4% p.a.	1.1%	ARC £ Steady Growth:	5.1%	IMA Absolute Return	1.3%

Source: Lipper, Bloomberg & ARC, as at 31 March 2010. Calculation basis: Sterling, total return, bid to bid, without initial charges, net income reinvested, net of management fees.

Significant transactions

Acquisitions	Disposals
FTSE 100 Index-Sep10 5000 (Put Option)	VT Group PLC
Nomura Holdings Inc.	FTSE 100 Index-Sep10 4700 (Put Option)
Greece (Republic of) 6% Bds 19/07/2019	Sankyo Co. Ltd
Zurich Financial Services AG	Euro FX Currency Future-Mar10 1.45 (Put Option)
Bayer AG	Noble Group Ltd

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

Fund manager report

As the first quarter of 2010 progressed, investors' earlier concerns regarding monetary authorities' exit strategies and sovereign debt defaults increased. However, signs of stabilisation in the closely-followed US employment data, allied to milder rhetoric from the Federal Reserve, paved the way for an increase in investors' risk appetite. Across global equity markets the shift in sentiment was reflected in a marked rally among cyclical sectors, such as leisure goods and media.

Performance

In this equity-friendly environment the Fund registered a positive contribution from all asset classes, despite the defensive equities held within the portfolio not being in vogue in the current 'pro-risk' environment. Whilst eschewing dogma, we remain sceptical of the view that we are experiencing a normal, and sustained, V-shaped

recovery. Thus we have maintained a cautious stance. Our greatest concern is the unresolved overhang of indebtedness, in both the private and, increasingly, the public sector, which will, in all likelihood, give rise to a sustained period of deleveraging in the developed world. Not only will this debt reduction weigh on growth, but it might, quite feasibly, lead to a reversal of economic momentum as the measures of government stimulus moderate.

The core of the equity portfolio continues to focus upon stable growth areas such as healthcare and mobile telecoms where, in the near term, dividend yields alone are sufficient to make up much of the return required for a real return strategy. Holdings that reflect this view include **GlaxoSmithKline, Roche, Deutsche Telekom & LG Telecom**. Well-performing stocks in the quarter include **Amplifon, VT Group, Millicom** and **The Biotech Growth**

Trust. Amplifon, the hearing aid device retailer, has a growing global presence which, in recent months, has benefited from increasing consumer confidence. Hearing devices are deferrable expenditure and Amplifon is enjoying currently sales foregone during the financial crisis. **Millicom**, an emerging markets mobile telecom operator, climbed sharply upon the release of an impressive set of annual results and **VT Group** contributed positively, as it surged on a takeover bid from Babcock International. **The Biotech Growth Trust PLC**, an investment trust which seeks capital appreciation through investment in biotechnology companies (which have reached an IPO stage, but are not yet profitable), posted strong returns this quarter. We are very positive on the outlook for biotechnology, in accordance with Newton's 'Medical Technology' theme. However, given the high risk of failure of individual biotech firms, an investment trust provides the diversification required when investing in this area.

Within the fixed interest portfolio, the position in Norwegian government bonds reaped the benefits of the krone's continued appreciation against sterling, whilst the recently-established holding in Lithuanian sovereign debt appreciated markedly in recognition of the authorities' efforts at underlying structural reform. Finally, the substantial exposure to corporate debt, particularly to non-investment grade issues, was rewarding, with the returns from a number of such holdings outpacing equity market gains. Top performers included the corporate debt of **British American Tobacco**, **Fresenius Medical Care** and **Sprint Nextel**.

Review of Activity

The overall structure of the portfolio has remained largely consistent throughout the quarter, with a core of high-yielding assets, including equities and corporate bonds, in areas which fit our long-term-growth themes. These core, return-seeking assets are complemented by a variety of positions in commodities, government bonds, currency options and equity market hedges, which protect the portfolio against specific risks and reduce volatility.

Zurich Financial was introduced during the quarter. This exhibits the characteristics that we are looking for in the context of the fund structure outlined above: high yield, balance sheet strength

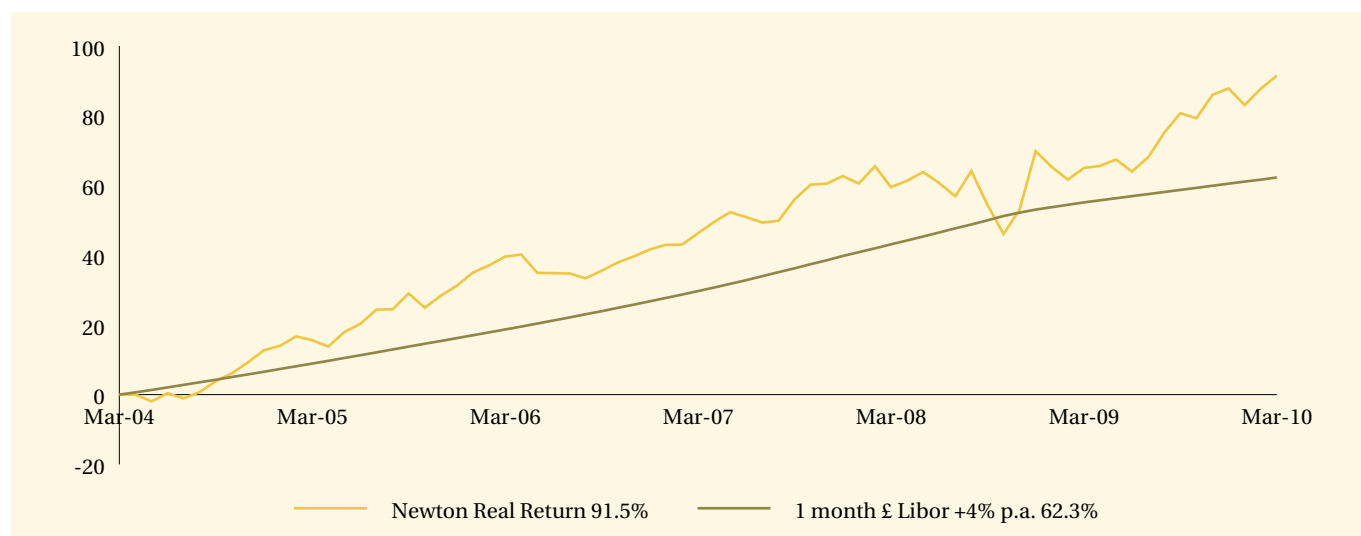
and cash flow generation, combined with high quality management. The fund increased its holding in **Bayer**, the healthcare, crop science and chemicals group. Despite a compelling valuation, the stock has been a victim of rotation into more cyclical areas over the last twelve months. More specifically we are excited by the potential for its recently launched *Xarelto* treatment, the first new anticoagulant for several decades. A further attraction is the company's impressive franchise in consumer health, which includes a market-leading position in over-the-counter products in China. A new position was built in **Nomura**, the Japanese bank which the fund bought on an attractive valuation. The acquisition of Lehman Brothers' Asian and European investment banking assets presents a potentially profitable opportunity outside Nomura's domestic market. Sales made during the quarter include **VT Group** which, as mentioned above, posted strong returns following a bid from rival Babcock International. **Noble Group** was sold following a period of sustained out-performance.

In fixed interest we continued to take profits in investment-grade corporate bond positions, where strong performance over the last twelve months has resulted in a compression in yield spreads. While spreads over government bonds are getting increasingly narrow, absolute yields to maturity still remain at an attractive level. New issues bought during the quarter include **LBI Escrow Corp 8% 01/11/2017**, which yields 9.3% to maturity and **Kerling PLC 10.63% 28/01/2017**, with a yield to maturity of 10.1%. Finally, as discussed supra, we introduced a small holding in **Lithuania 7.375% 2020** government bonds. This economy has endured major challenges over the last two years as it faced the fallout from dramatic asset price and consumer lending bubbles. However, unlike many economies in a similar situation, policymakers here seem to have grasped the nettle courageously and are proceeding with major structural reforms.

The Fund reduced its exposure to overseas currencies to approximately 20% of total currency exposure, from c.30% earlier in the quarter, via forward currency contracts out of the US dollar, Euro and Swiss franc. Although we retain our long-term, negative view on sterling, sterling looks oversold currently.

Long-term performance

Performance since launch



	2001	2002	2003	2004	2005	2006	2007	2008	2009	YTD 2010
Newton Real Return	-	-	-	-	16.4	8.0	14.9	4.4	10.6	2.0
1 month £ Libor +4% p.a.	-	-	-	-	9.0	9.1	10.3	9.5	4.9	1.1

Discrete past performance - percentage change

From	31/03/05	31/03/06	31/03/07	31/03/08	31/03/09
To	31/03/06	31/03/07	31/03/08	31/03/09	31/03/10
Newton Real Return	20.7%	4.8%	9.0%	3.5%	16.0%

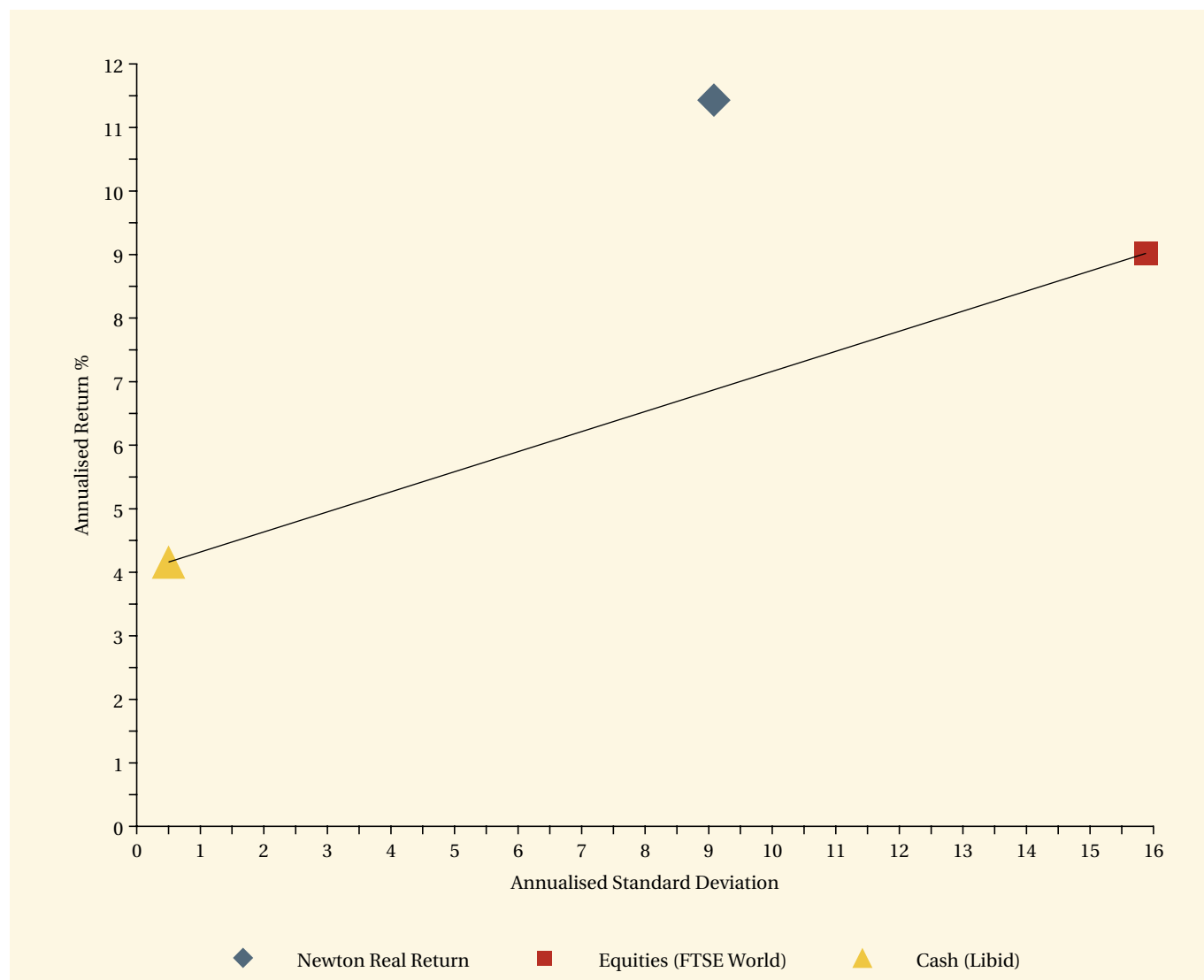
Source: Lipper, Bloomberg & Datastream, as at 31 March 2010. Calculation basis: Sterling, total return, bid to bid, without initial charges, net income reinvested, net of management fees.

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 Real Return Fund has given a higher return than cash and equities with significantly lower volatility than equities. The relaunch date of the fund was 31 March 2004.

Risk and return since launch

	Annualised Return	Volatility	Sharpe ratio
Newton Real Return	11.4%	9.1%	0.8%
1 month £ Libor +4% p.a.	8.4%		

Source: Lipper, Bloomberg & Datastream, as at 31 March 2010. Calculation basis: Sterling, total return, bid to bid, without initial charges, net income reinvested, net of management fees.

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.	BP, GlaxoSmithKline, Roche, Vodafone, Novartis
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.	Bangkok Expressway, Millicom, Tele Norte Leste Participacoes, Advanced Info Service
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, BP, Total, StatoilHydro, Petroleo Brasileiro
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.	ETFS Physical Gold, Barrick Gold, Index-Linked Bonds, Newmont Mining

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.

Issued by Newton Investment Management Limited (NIM). The Newton Real Return Fund is a sub-fund of BNY Mellon Investment Funds, as an investment company with variable capital (ICVC) incorporated in England and Wales under registered number IC27. Registered office for NIM and BNY Mellon Fund Managers Limited (BNY MFM): BNY Mellon Centre, 160 Queen Victoria Street, London EC4V 4LA. Registered in England No.1371973 (NIM) and No. 1998251 (BNY MFM). NIM and BNY MFM are authorised and regulated by the Financial Services Authority.

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