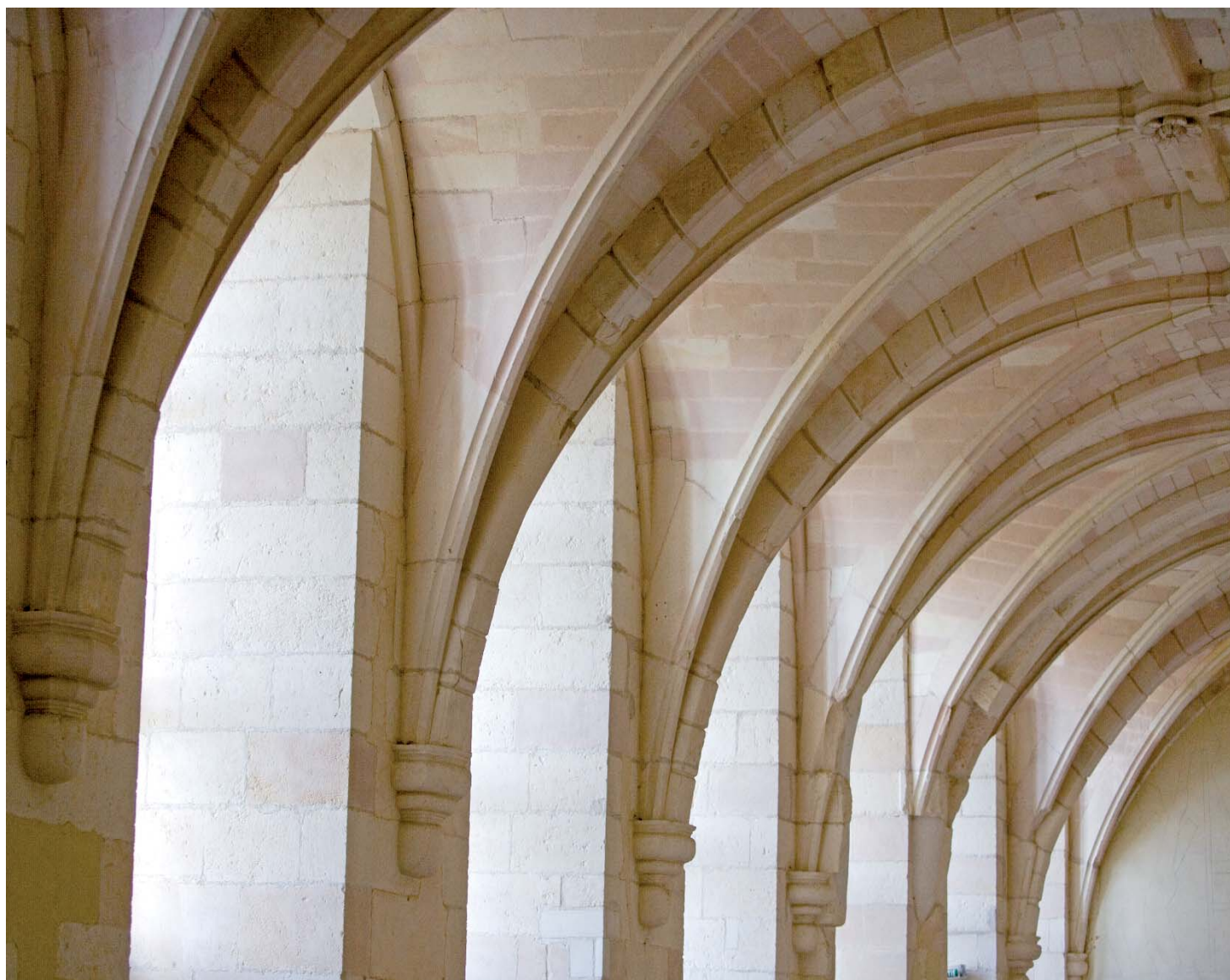


Newton Falcon Fund

Investment Report - Second Quarter 2010

► A BNY MELLON COMPANYSM

NEWTON
The Power of Ideas



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Fund information

Long-term track record

The Newton Falcon Fund has returned 110.5% since launch (13 November 1998), which is equivalent to 6.6% per annum. This is an outperformance of 3.4% 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 from a portfolio invested in UK and overseas equities across a wide range of industries and countries. The manager of the fund is expected to invest with limited reference to the composition of the benchmark, and as a result the fund's performance may differ from the benchmark by a wide margin. For most of the time the fund will be fully or almost fully invested in equities, but it is permitted to hold other assets.

Expected characteristics

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

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

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

Performance references

Since 1 January 2010, the benchmark is 50% FTSE All Share Index, 50% FTSE W World ex UK Index (£). Prior to this it was 50% FTSE All Share Index, 50% MSCI World ex UK Index (£).

Risk profile

Suitable for investors with a high risk profile.

Fund facts

Fund size (millions):	GBP 98	Ex dividend dates:	28 Feb, 31 Aug
Annual management charge:	1.5%	Pay dates:	Two business days before 30 Apr, 31 Oct
Total expense ratio:	1.59%	Last distribution:	0.2563p per unit (inc units only)
Base currency:	GBP	ISIN	GB0032585050
Dividend yield:	1.4%	Sedol	3258505

Focus on the latest quarter

Performance over three months

Newton Falcon Fund	-6.7%				
Benchmark*	-11.5%	ARC £ Equity Risk (est)	-8.3%	IMA Global Growth	-9.9%
FTSE All Share	-11.8%	FTSE World ex UK	-11.1%		

Source: Lipper, ARC & Datastream, as at 30 June 2010. Calculation basis: Sterling, total return, bid to bid, without initial charges, net income reinvested, net of management fees.

Major contributors to relative performance

Positive	%
BP PLC (underweight)	0.85
Sprint Nextel Corp	0.59
HTC Corporation	0.43
Barrick Gold Corp	0.33
Newcrest Mining Ltd	0.28

Negative	%
Transocean Ltd	-0.66
AstraZeneca PLC	-0.26
Potash Corp of Saskatchewan	-0.25
Nomura Holdings Inc	-0.20
ITT Educational Services Inc	-0.19

Significant transactions

Acquisitions
Accenture Plc
Intel Corp.
Syngenta AG
Canon Inc.
Xstrata PLC

Disposals
BB&T Corp.
Xstrata PLC
Denbury Resources Inc.
ITT Educational Services Inc.

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

Fund manager report

Concerns relating to the solvency of some of the most indebted governments and the withdrawal of stimulus measures were shrugged off by investors during the first quarter of the year, but were much more persistent in the last three months, leading equity markets to give up all of their earlier gains. Fears about deficits and existing debt levels in Greece, Portugal and Spain, and the vulnerability of European banks convinced a reluctant European Central Bank to start buying government bonds directly. The Chinese authorities have continued their efforts to discourage property speculation and curb previously rampant credit growth, and new data on US home sales following the expiry of a first-time homebuyer tax credit was not encouraging. Greater government scrutiny of the financial sector gathered steam, most obviously in the US where the SEC charged Goldman Sachs with fraud, and the Senate passed a financial regulatory reform bill. Corporate results in general continued

to demonstrate recovery, but this was nonetheless a difficult environment for equities, and the Fund's benchmark fell by 11.5% over the quarter. The Fund itself was significantly more resilient, producing a return of -6.7% after fees.

The drivers of the Fund's good relative performance were spread across a range of different industries. The investments in gold mining shares were helpful, especially when compared to the weak performance of miners of bulk and industrial metals, although this did not prevent us from making a rapid 10% return from an unusually brief investment in Xstrata. The Fund's high allocations to Telecoms and Health Care, two of the more resilient sectors during the quarter, were beneficial. Sprint Nextel in particular performed strongly, after announcing results that showed further signs of improvement. Within the Financial sector, limited exposure to banks was

helpful, as was good performance from ICAP, whilst holdings of Consumer Goods companies including Gildan Activewear, Natura, and Hypermecas were largely unaffected by stock market turmoil. One of the strongest performers in the Fund over the quarter was HTC, a Taiwanese designer of smartphones. HTC has emerged as an early leader in phones based on Google's Android operating system, which mobile service providers are increasingly keen to promote as an alternative to Apple's iPhone. Brand recognition is improving rapidly, and recent results have shown an acceleration in growth. The holding that detracted most from performance during the quarter was Transocean, which owned the drilling rig that was destroyed by the explosion at BP's Macondo well in the Gulf of Mexico. In relative performance terms, the negative impact was more than offset by the effect of holding only a small weighting in BP. With the share prices of both companies down by approximately 50%, we increased both holdings, judging that the valuations reflected an overly pessimistic scenario. We believe that the bulk of the liability will end up with BP, which has the financial resources to handle it, and that the drilling moratorium will be lifted in due course (with the implementation of additional safety requirements), which leaves Transocean shares attractively valued on a longer-term view.

We made several new purchases in the technology sector this quarter. Intel is benefiting from an ongoing shift to individual (as opposed to household) ownership of PCs. Its technological leadership continues to widen and it is also likely to gain from a cyclical upswing in corporate spending on upgrading PCs and servers. The shares trade on a low earnings multiple, and provide an attractive dividend yield of 3%. This suggests that investors assume that recent improvements in sales and margins are purely cyclical, which gives the management team little or no credit for their significant efforts in recent years to improve process efficiency and reduce costs. Accenture, another significant purchase in the technology sector, is the market leader in the growing IT services industry, boasting a strong management team and diverse, stable sources of revenue. The business has low capital requirements, and excess cash is returned to shareholders through dividends and share buybacks. We believe the company's growth prospects are underestimated. Corporate balance sheets are relatively strong and with capital

expenditure likely to recover in the near future, Accenture should benefit.

Syngenta, a new purchase made during the market setback, is a producer of crop protection products and seeds and a beneficiary of our 'Earth Matters' theme. It was added to the portfolio after share-price weakness relating to a read-across from its competitor Monsanto. We believe that Monsanto's weakness should be treated as an opportunity rather than a headwind, as the specifics of the situation are far less relevant for Syngenta's business. At less than 14 times this year's earnings the valuation is compelling given solid prospects.

We sold the Fund's holding in BB&T, a regional US bank, following relatively strong performance. Results have shown a continued improvement in credit quality, but the shares are already being valued on the assumption that loan loss provisions "normalise" in 2012 at a low level. US housing statistics released following the expiry of a first-time homebuyer tax credit were not encouraging, and we decided to cut back the Fund's exposure to the financial sector with this sale. Cash was also raised by reducing the holdings of Denbury Resources, a US company that specialises in recovering oil from mature wells by flooding them with carbon dioxide, and ITT, a US Education company. The whole for-profit education sector is likely to face a tougher regulatory environment once reforms are announced later this year, and whilst the valuation already reflects a subdued outlook, we decided to reduce the size of the investment at a small profit.

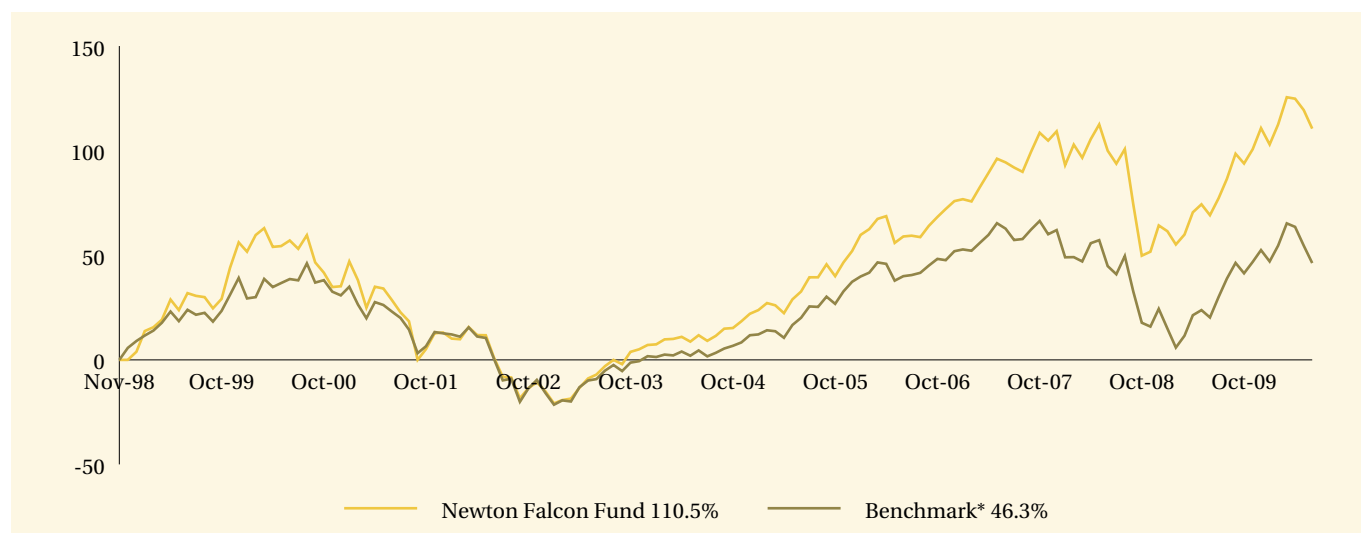
The widespread problem of excessive indebtedness cannot be solved easily or quickly, as many of the events of the last few months have demonstrated. We have taken advantage of lower equity prices this quarter to make some new investments at attractive valuations, but have not made major changes to the structure of the portfolio.

Fund management team:

Robert Hay and Ross Ciesla

Long-term performance

Performance since launch



	2001	2002	2003	2004	2005	2006	2007	2008	2009	YTD 2010
Newton Falcon Fund	-16.4	-24.8	26.0	14.0	24.6	15.7	19.0	-21.5	28.3	-0.1
Benchmark*	-13.9	-25.2	20.8	9.9	22.8	10.6	6.6	-23.2	22.6	-4.1

Discrete past performance - percentage change

From	30/06/05	30/06/06	30/06/07	30/06/08	30/06/09
To	30/06/06	30/06/07	30/06/08	30/06/09	30/06/10
Newton Falcon Fund	19.8%	22.4%	2.8%	-15.4%	24.4%

Source: Lipper & Datastream, as at 30 June 2010. Calculation basis: Sterling, total return, bid to bid, without initial charges, net income reinvested, net of management fees.

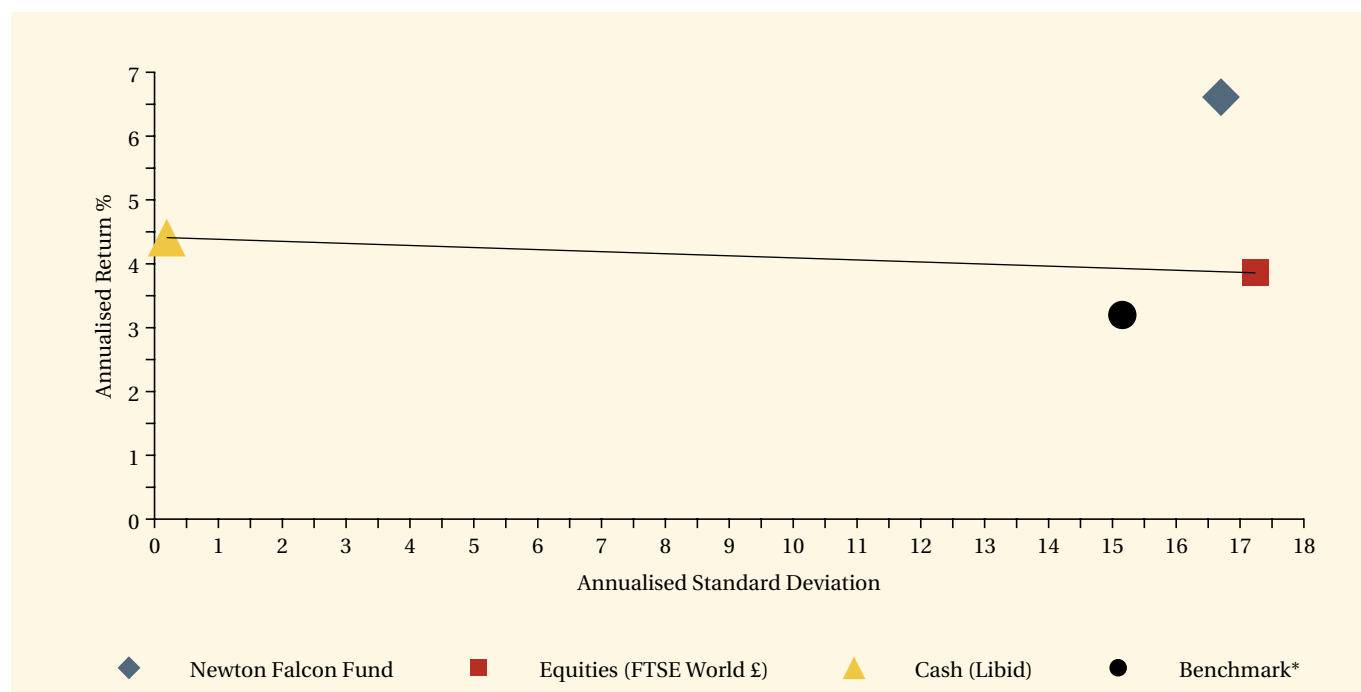
*Since 1 January 2010, the benchmark is 50% FTSE All Share Index, 50% FTSE W World ex UK Index (£). Prior to this it was 50% FTSE All Share Index, 50% MSCI World ex UK Index (£).

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 Falcon Fund has given a higher return than cash, world equities and the benchmark with higher volatility than that of the benchmark. The launch date of the fund was 13 November 1998.

Risk and return since launch

	Annualised Return	Volatility	Sharpe ratio
Newton Falcon Fund	6.6%	16.7%	0.1
Benchmark*	3.2%	15.2%	-0.1

Source: Lipper & Datastream, as at 30 June 2010. Calculation basis: Sterling, total return, bid to bid, without initial charges, net income reinvested, net of management fees.

*Since 1 January 2010, the benchmark is 50% FTSE All Share Index, 50% FTSE W World ex UK Index (£). Prior to this it was 50% FTSE All Share Index, 50% MSCI World ex UK Index (£).

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.

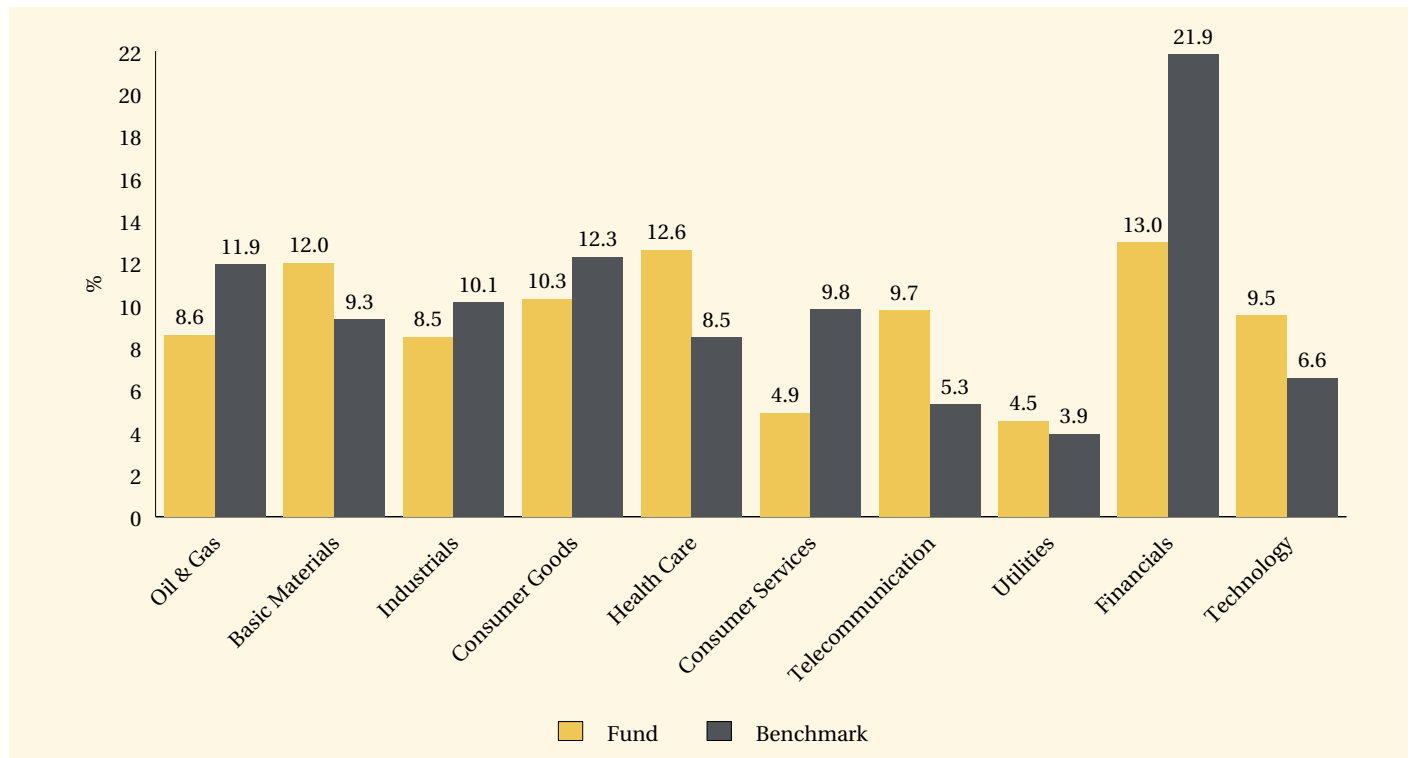
Strategy groups	Representatives from the strategy team, fund managers and research analysts identify global themes and formulate our economic view.
Research team	Global sector analysts, supported by fund managers, identify investment opportunities within the thematic backdrop.
Fund management	Fund managers 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.

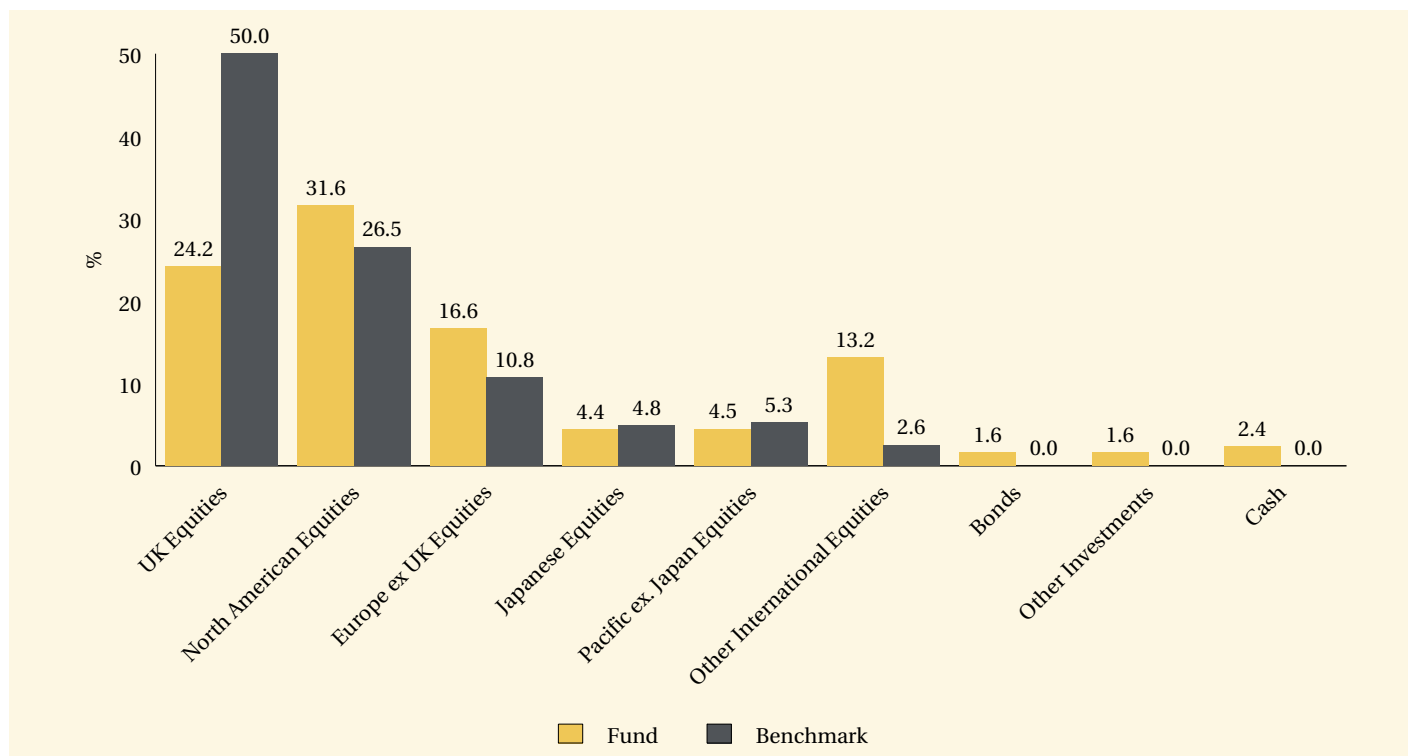
Theme	Factors	Investments
All Change	The popping of the credit bubble has marked an end to the era of rapid growth in private sector debt in the developed world. Structurally impaired financial systems and impending regulatory burdens ensure that credit will be less freely available, and this has profound implications for consumer-driven economies, all asset classes and investment strategies.	Altria, Cable and Wireless, Eli Lilly, Flir Systems, GlaxoSmithkline, HTC, Intel, Nestle, limited exposure to western commercial banks
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 entail the development of Western-style health and social security systems and will involve significant cyclical influences as well as frictions regarding trade policies.	Bangkok Bank, Copasa, Hypermarcas, Inpex, Millicom, Natura Cosmetics, Sands China, Yingde Gases
Networked World	Although networks have already transformed our lives, the trend remains at a relatively early stage. Rapid increases in bandwidth continue to increase networks' range of uses and their interactivity, which in turn is driving productivity gains. The explosive growth of mobile internet, combined with innovations in sensor technology, will generate profound changes in many industries.	Accenture, Cisco Systems, HTC, Millicom, Sprint Nextel
More Government	State intervention and forms of managed capitalism hold sway over an increasing proportion of global output. With the increasing involvement of governments come more regulation, higher taxes and the prospect, ultimately, of slower growth and higher economic volatility. Local interests will take priority over global interests. The unpredictable nature of state intervention increases the risks in all asset classes.	Newcrest Mining, ETFS Physical Gold, Rossi Residencial

Fund analysis

Equity weightings by industry



Regional and asset class weightings



Source for all charts: Newton, as at 30 June 2010.

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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