

Newton Balanced Bridge Fund

Investment Report - Third Quarter 2010

► A BNY MELLON COMPANYSM

NEWTON
The Power of Ideas



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Fund information



Long-term track record

The Newton Balanced Bridge Fund has returned 92.5% since launch (23 December 1998), which is equivalent to 5.7% per annum. This is an outperformance of 1.5% 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 income and 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 Income and Growth Model. The central asset allocation for the model is 60% invested in global equities and 40% 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: Medium, and the dividend is likely to grow over the long term. Please note that the frequency of the dividend has increased from semi-annually to quarterly. Please see pay dates below.

Performance references

Newton Balanced Composite (benchmark), ARC Sterling Steady Growth, WM Private Client Balanced Indicator. The Newton Balanced Composite benchmark comprises 40% FTSE All Share, 20% FTSE World ex UK, 15% FTA Govt All Stocks, 15% ML Sterling Non-Gilts & 10% 1 month £ LIBOR.

Risk profile

Suitable for investors with a medium risk profile.

Fund facts

Fund size (millions):	GBP 249	Ex dividend dates:	End Jan, Apr, Jul & Oct
Annual management charge:	0.8%	Pay dates:	2 business days before end Mar, Jun, Sep & Dec
Total expense ratio:	0.83%	Last distribution:	3.16p per unit
Base currency:	GBP	ISIN:	GB0004833660
Dividend yield:	3.6%	Sedol:	0483366

Focus on the latest quarter

Performance over three months

Newton Balanced Bridge	8.8%				
Newton Balanced Index	8.4%	ARC £ Steady Growth est.	7.0%	WM PCI Balanced	4.8%
FTSE All Share	13.6%	FTSE W World (ex UK)	8.2%	FTA Govt All Stocks	3.6%

Source: Lipper, WM, ARC & Datastream, as at 30 September 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	%
HTC Corporation	0.63
Newcrest Mining Ltd	0.31
Telekomunikacja Polska SA	0.27
Bangkok Bank PCL	0.20
Aberdeen Asset Management PLC	0.16

Negative	%
Barrick Gold Corp	-0.25
Rio Tinto PLC (not held)	-0.21
HSBC Infrastructure Co Ltd	-0.20
Intl Public Partnership Ltd	-0.19
Roche Hldgs AG	-0.17

Significant transactions

Acquisitions
Petrobras Petroleo Brasileiro (Pfd)
Syngenta AG
Treasury 4.25% Stk 7/06/2032
Reynolds American Inc.
SBM Offshore N.V.

Disposals
BP PLC
National Grid PLC
Treasury 4% Stk 7/3/2022
Treasury 3.75% Stk 07/09/2019
Deutsche Telekom AG

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

Fund manager report

Investors took comfort in the policy responses to the sovereign debt crisis in Europe during the last quarter, but kept a watchful eye on the pace of the economic recovery fearing that it is losing steam, creating downward pressure on consumer prices and thus reviving the fear of deflation. One might expect equities to perform poorly under such circumstances, yet UK equities returned 13.6%, as measured by the FTSE All Share Index, while world equities were up by 8.2% according to the FTSE World Index ex UK, rebounding from the significant declines in the second quarter.

The Fund's positioning continues to maintain a core of defensive Western stocks, emphasising holdings of high dividend paying names in health care, telecommunications and utilities sectors and underweighting cyclical industries such as industrials, banks and consumer goods. Economic sensitivity continues to be highlighted by our

developing economies and *global realignment* themes and we remain positive on the prospects of Asian and Latin American emerging markets. Whilst our strategy in developed economies is one of value and income, it is in emerging markets, both directly and indirectly, that we are looking for growth. Domestic demand in these economies is developing, and the consumer sector will be a strong beneficiary of this process, as more people in emerging economies rise out of poverty as a result of accelerated growth, and as governments come to realise the limitations and perils of relying excessively on exports for further economic prosperity. We have retained our holdings in Oil Search, Rossi Residential, Bangkok Bank and Natura Cosmetics, and we have added Huabao (a Chinese tobacco flavouring company). Consistent with our *earth matters* theme, a dramatic rise in crop prices, coupled with increased M&A activity

within the sector, prompted us to add exposure to Syngenta, a crop protection stock.

The Fund's holdings of gold mining companies were retained amid a continuing rally in the gold price. Concerns surrounding excessive sovereign debt and currency debasement remain intact and were even more broadly acknowledged by the market this quarter amid expectations of further quantitative easing and attempts by the several governments to hold down the value of their currencies versus that of trading partners, in a bid to boost economic growth through increased exports. Following further Euro appreciation we closed the currency hedging position, put in place during the second quarter, at a profit. We continue to lessen our US dollar position by selling the dollar forward to December in favour of sterling.

Bond investors, who would normally react negatively to any suspicion of currency debasement via inflation, shrugged off such concerns taking comfort from strong hints made by the US Federal Reserve's Ben Bernanke that the Fed stood by to engage in a second round of quantitative easing (dubbed "QE2" in affectionate anticipation by the markets). In other words, investors were in no hurry to sell bonds before the world's deepest pockets started to buy them. Credit spreads, the extra compensation over the yield on a government bond which investors demand to hold bonds with even a small probability of default, narrowed over the quarter as investors took a more positive view on credit risk. Our bond strategy, which consisted of increasing exposure to government bonds in Q2 while retaining holdings in investment grade corporate and a smaller weighting in high yield bonds, was a contributor to performance.

The outlook remains highly uncertain or "unusually uncertain", to use the words of Mr Bernanke. As developed economies lose the boost from strong inventory build-up in the manufacturing sector, and plans to restore government finances inevitably lead to tax increases and spending cuts, economic growth will be left to the spending proclivities of households, which in turn have to deal with their own debt overhang. The future of the economic recovery thus hangs in the balance and further policy stimulus may be required to maintain some momentum in the form of interest rates remaining low.

Within this context, our overall portfolio strategy continues to be positioned for a broad range of outcomes. We retain our conservative stance in the developed world, emphasising companies with

strong balance sheets, good cash generation, low valuations and high dividend payouts. Exposure to sustained economic growth in the developing world is found in raw materials companies that will benefit from the significant requirements for infrastructure and industrial development, and also in companies that cater to their growing ranks of the middle classes. We hold gold in a bid to protect wealth from the potential loss of paper currency value amid promises (or threats?) of quantitative easing and of competitive devaluations in the global currency arena. Finally, seeking to anchor portfolio performance in case of further bouts of market volatility emanating, for example, from renewed concerns over sovereign debt or the US and UK housing markets, we hold government and corporate bonds.

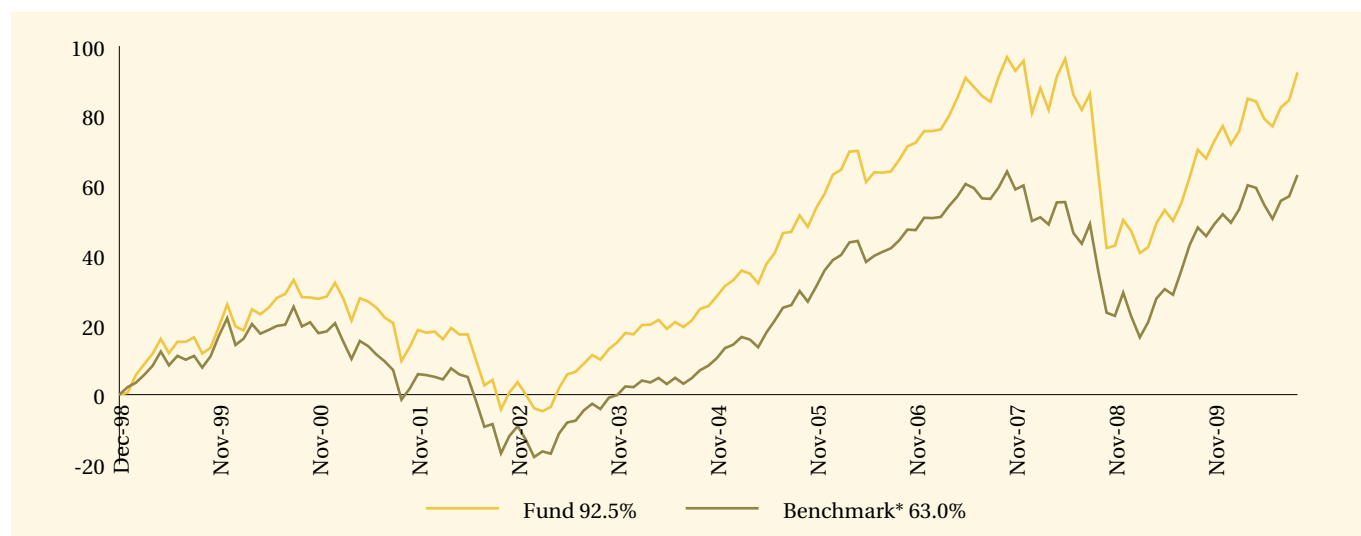
From next quarter we will start to pay the Balanced Bridge Fund dividend quarterly, instead of semi-annually, the first such payment will be made on 31 December.

Fund management team:

Julie-Ann Ashcroft and Caroline Tye

Long-term performance

Performance since launch (%)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	YTD 2010
Fund	-15.1	-15.1	17.7	11.5	20.2	11.4	11.5	-23.3	17.9	8.7
Benchmark*	-10.6	-17.5	17.5	10.8	19.6	11.1	6.1	-19.2	17.4	7.4

Discrete past performance (%)

From	30/09/05	30/09/06	30/09/07	30/09/08	30/09/09
To	30/09/06	30/09/07	30/09/08	30/09/09	30/09/10
Fund	10.5	14.2	-14.5	4.2	13.0

Source: Lipper, WM & Datastream, as at 30 September 2010. 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 Balanced. Thereafter it is the Newton Balanced Composite. The Newton Balanced Composite benchmark comprises 40% FTSE All Share, 20% FTSE World ex UK, 15% FTA Govt All Stocks, 15% ML Sterling Non-Gilts & 10% 1 month £ LIBOR.

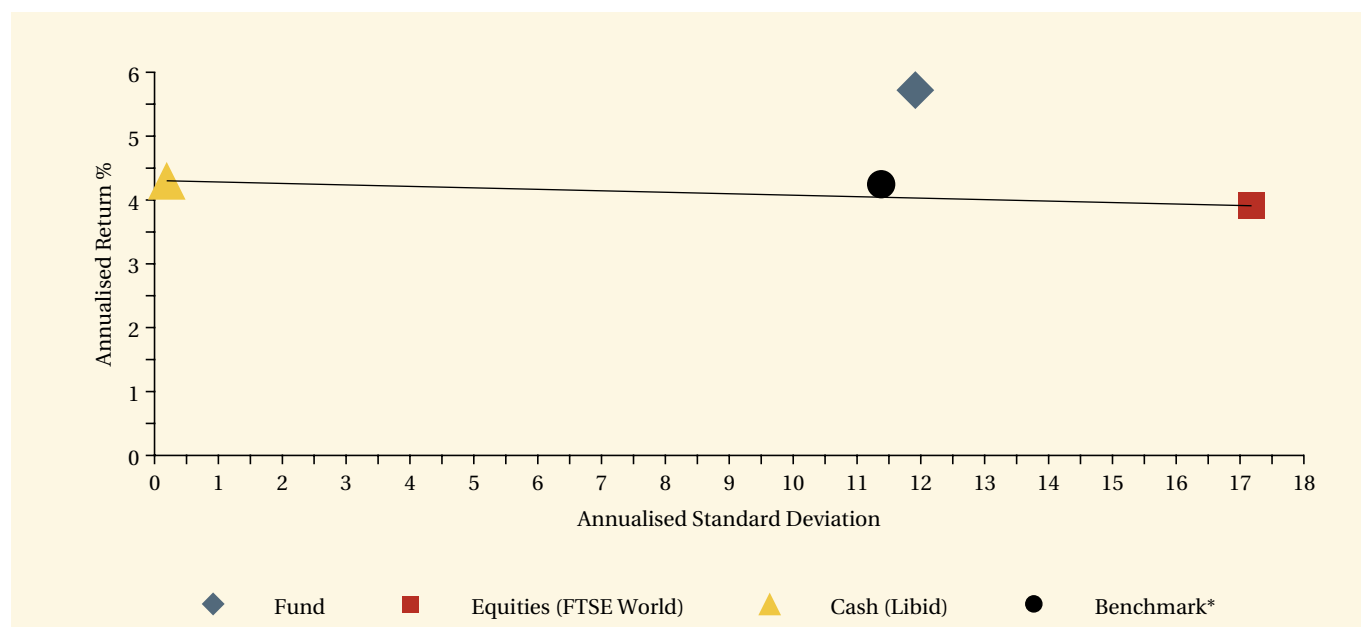
Risk factors

The performance data shown on this report is past performance; as such it is not a guide to future performance.

Investors should remember that unit trusts should be regarded as long-term investments and that the value of units, and the income from them, can go down as well as up due to stock market and movements in exchange rates. When you sell your investment you may get back less than you originally invested. The fund may invest in emerging markets which are, by their nature, higher risk and potentially more volatile than those inherent in established markets.

Long-term performance - risk and reward

Fund return and volatility since launch



This chart shows both return and volatility. The Newton Balanced 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 23 December 1998.

Risk and return since launch

	Annualised Return	Volatility	Sharpe ratio
Fund	5.7%	11.9%	0.1
Benchmark*	4.2%	11.4%	0.0

Source: Lipper, WM & Datastream, as at 30 September 2010. 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 Balanced. Thereafter it is the Newton Balanced Composite. The Newton Balanced Composite benchmark comprises 40% FTSE All Share, 20% FTSE World ex UK, 15% FTA Govt All Stocks, 15% ML Sterling Non-Gilts & 10% 1 month £ LIBOR.

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.

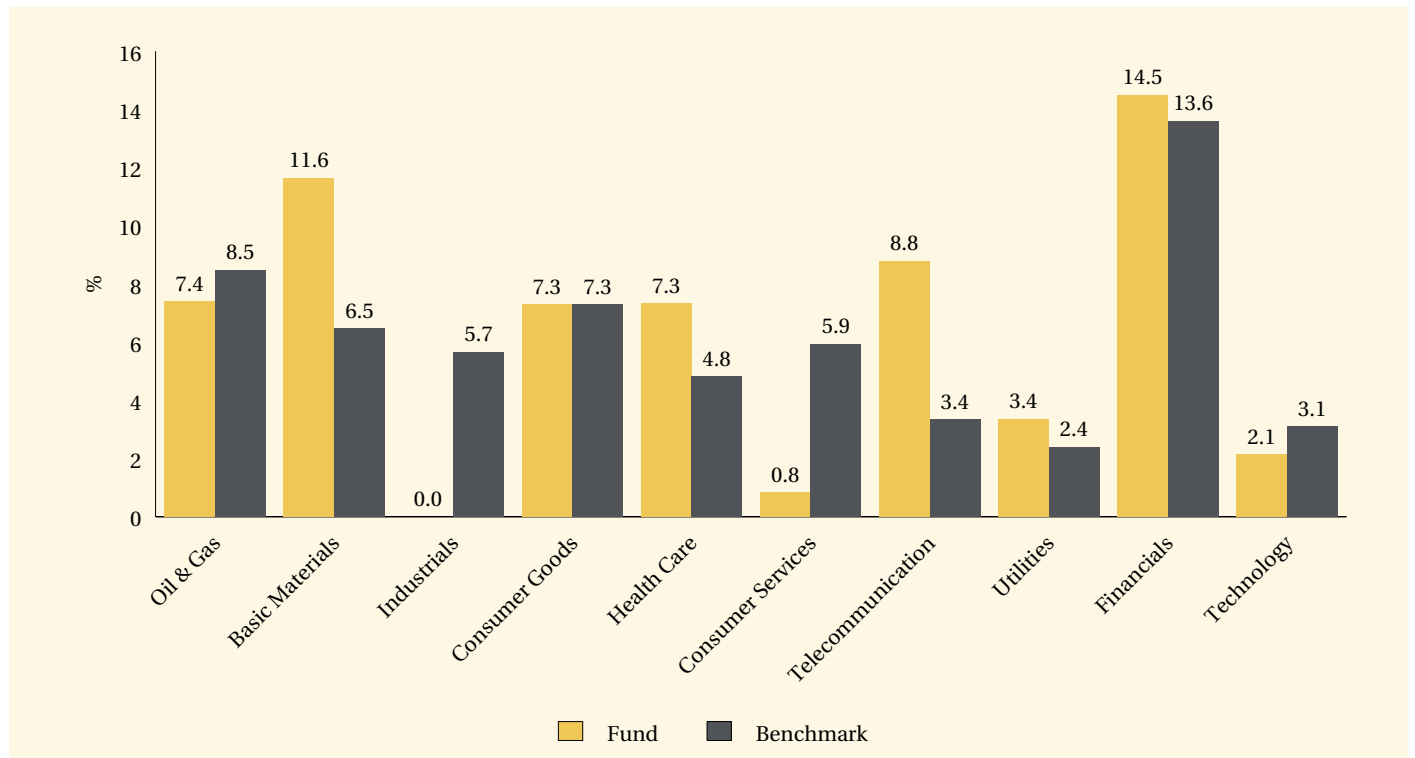
Strategy groups	Representatives from the strategy team, fund managers and research analysts identify global themes and formulate our economic view.
Research team	Global sector analysts, supported by fund managers, identify investment opportunities within the thematic backdrop.
Fund management	Fund managers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

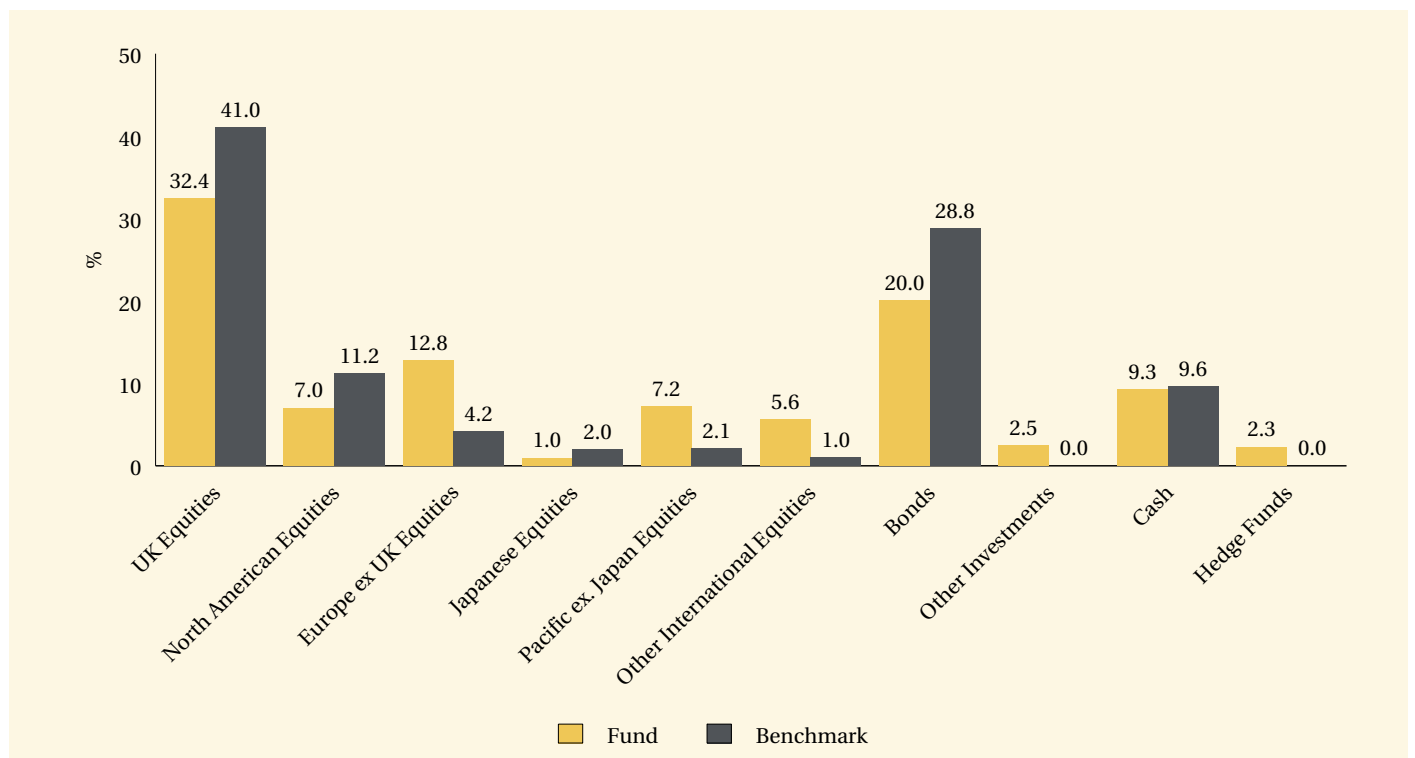
Theme	Factors	Investments
All change	The popping of the credit bubble has marked an end to the era of rapid growth in private sector debt in the developed world. Structurally impaired financial systems and impending regulatory burdens ensure that credit will be less freely available, and this has profound implications for consumer-driven economies, all asset classes and investment strategies.	AMP, Barrick Gold, GSK, Jardine Lloyd Thompson, Newcrest Mining, Novartis, Scottish & Southern
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, HTC Corporation, Mapletree Logistics, Natura Cosméticos, Petrobras
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.	Millicom, Sprint, Telekomunikacja Polska, Telefonica, Vodafone
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.	Gilts, Rossi Residencial, Currency hedging

Fund analysis

Equity weightings by industry



Regional and asset class weightings



Source for all charts: Newton, as at 30 September 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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