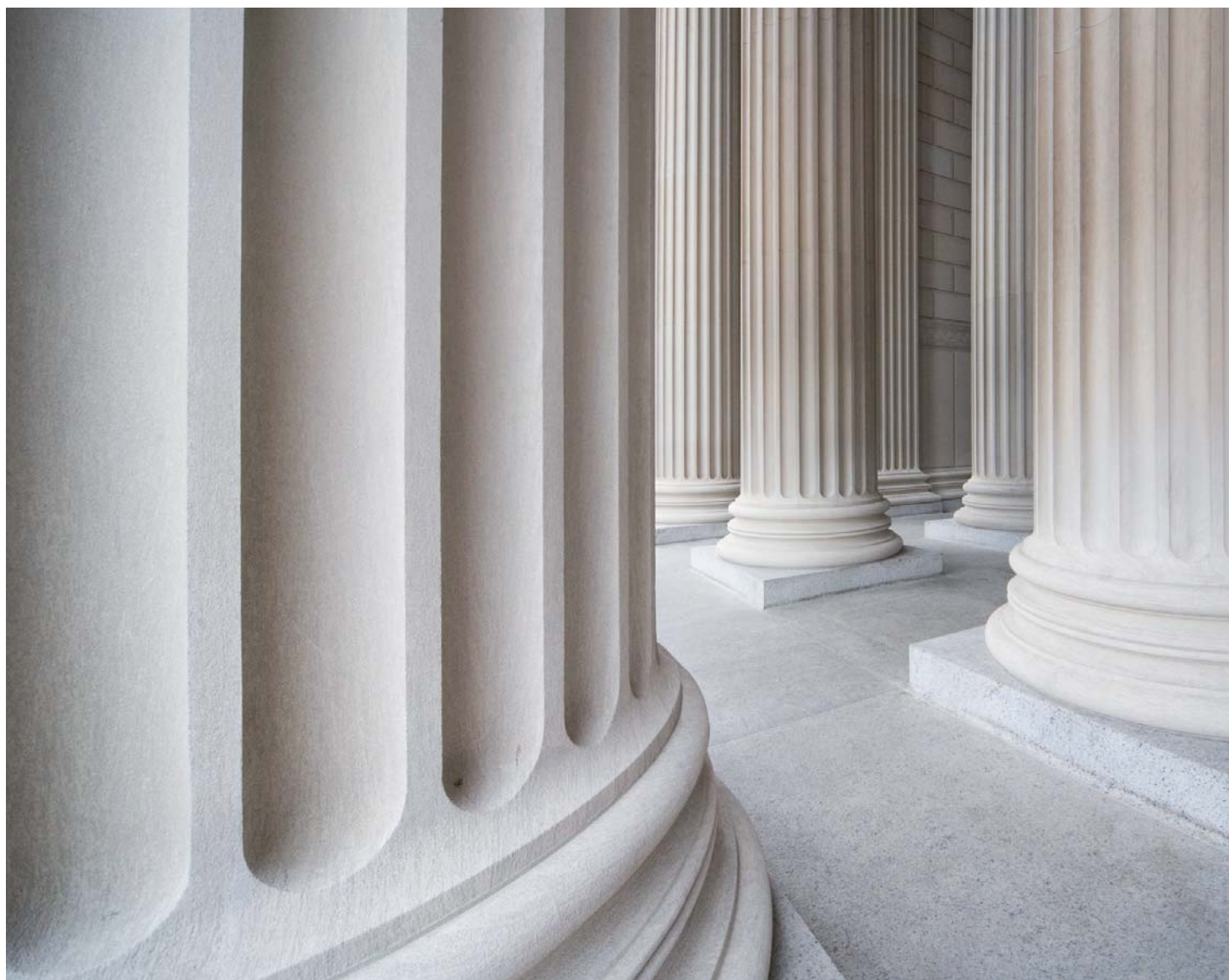


Newton Real Return Fund

Investment Report - Third Quarter 2010

▶ A BNY MELLON COMPANYSM

NEWTON
The Power of Ideas



Contents

Fund information	1
Focus on the latest quarter	2
Long-term performance	4
Long-term performance - risk and reward	5
Newton's investment process	6
Glossary	7

Fund information

Long-term track record

The Newton Real Return Fund has returned 97.8% since relaunch (31 March 2004), which is equivalent to 11.1% 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 2,310	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:	2.6478p per unit
Base currency:	GBP	ISIN:	GB0006780323
Dividend yield:	3.6%	Sedol:	0678032

Focus on the latest quarter

Performance over three months

Newton Real Return	5.1%				
1 month £ Libor +4% p.a	1.1%	ARC £ Steady Growth:	7.0%	IMA Absolute Return	2.5%

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

Significant transactions

Acquisitions	Disposals
Norway (Kingdom of) 4.5% Bds 22/05/2019	Norway (Kingdom of) 6.5% 15/05/2013
Norway (Kingdom of) 3.75% Bds 25/05/2021	Gold Fields Ltd
Yamana Gold Inc.	Genzyme Corp.
MTN Group Ltd	Acciona S.A.
Smith & Nephew PLC	FTSE 100 Index-Mar11 4800 (Put Option)

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

Fund manager report

Performance Factors

Global equity markets rallied over the quarter as concerns about sovereign debt diminished. While underlying macroeconomic data remained subdued, this served merely to prompt investors to discount further monetary stimulus. Anticipation of a second wave of quantitative easing appeared also to be responsible for further falls in the yields of higher-quality government bonds.

Over the review period, all asset classes made a positive contribution to performance. Equities accounted for the lion's share of the overall return, with Newcrest Mining, the Australian gold miner, the Fund's best-performing security amid the continuing rise in the price of gold and further appreciation in the Australian dollar. Perversely, other gold-related holdings, including Barrick Gold and Newmont Mining, actually made a negative

contribution in sterling terms owing to the US dollar's depreciation, although some of the negative impact of this US dollar weakness was mitigated by the use of currency forwards to hedge exposure back into sterling.

Other strong performers included BP, whose share price continued to recover in the aftermath of the Gulf of Mexico disaster. TPSA, the Polish telecommunications company, had a very strong quarter in the context of growing strength of the Polish economy. Large-cap stocks GlaxoSmithkline and Vodafone were also among the Fund's strongest-performing stocks, driven more by rising markets apparently than by any stock-specific news. One area of disappointment was the healthcare sector, in which Medtronic and Smith & Nephew reported falling US sales on account of an employment-related decline in the number of people covered by health insurance.

Corporate bonds were a further area of benefit, being assisted, unusually, by both falling government yields and narrowing 'spreads' (the additional reward for holding them over government equivalents). Initial caution about the economic outlook in the early part of the quarter caused government bond yields to decline; even as investors' risk appetite subsequently improved, talk of further quantitative easing by the Federal Reserve kept yields low, while spreads narrowed amid this improved investor sentiment. Among holdings, the bonds of Ineos Finance, a global petrochemicals manufacturer, were particularly strong, and the debt of Wind Acquisitions, an Italian mobile operator, was also in favour as the company continued its debt repayment programme.

Agriculture came under the spotlight over the quarter as a particularly dry summer gave rise to significantly lower wheat harvests in a number of regions. Resulting crop price rises had a positive impact on the Fund's holding in Bayer, a crop protection manufacturer which will see benefits from improving farm economics. The Fund's holding in ETFS Agriculture, which tracks a basket of agricultural commodities, also benefited directly from rising crop prices.

Review of activity

Against a backdrop of unprecedented monetary easing and competitive currency devaluations, we continue to invest a meaningful proportion of the Fund's assets in gold, through a combination of physical exposure and holdings in gold-mining equities. Towards the end of the quarter, our exposure to the latter was adjusted via the purchase of a new holding in **Yamana Gold**. The company boasts a compelling growth pipeline and we believe that its portfolio of South American assets is significantly undervalued in comparison with its peers. The purchase was funded via the reduction of **Gold Fields**, in relation to which we see less scope for share-price appreciation.

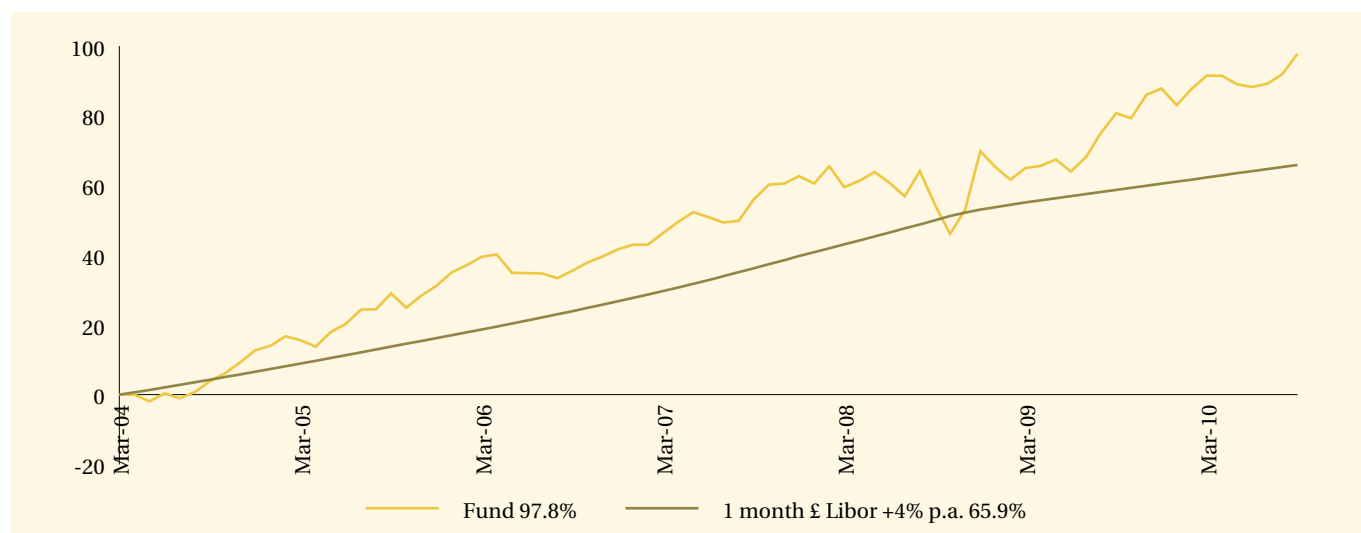
Our *networked world* theme continues to be reflected in stock selection in the Fund. We added a new holding in MTN, the South African-based mobile telecommunications operator, in order to gain exposure to the strong growth of mobile telecommunications across Africa. MTN has a presence in 21 markets, the average mobile penetration in which is approximately 50%, which leaves room for considerable growth as rates of mobile usage converge with those in the developed world.

Restraints on government budgets prompted our decision to sell Acciona, the Spanish infrastructure company which has a specific expertise in wind power generation. Acciona has benefited from generous subsidies and tariffs for wind power generation in recent years, but these are likely to come under pressure as budgets are cut. Although the company retains attractions, there is considerable uncertainty about the future of wind tariffs, and resulting uncertainty therefore about the scope for (largely debt-financed) wind farms to be refinanced in the debt markets.

We sold the holding in Genzyme following a bid from Sanofi Aventis which took the share price above our target exit level. The remaining 'upside' from retention of the holding (in the hope of receiving a higher bid) was, in our view, outweighed by the risk that the bid would fail and the share price fall to its pre-bid level.

Long-term performance

Performance since launch (%)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	YTD 2010
Fund	-	-	-	-	16.4	8.0	14.9	4.4	10.6	5.3
1 month £ Libor +4% p.a.	-	-	-	-	9.0	9.1	10.3	9.5	4.9	3.4

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	5.1	15.1	-1.0	17.0	9.5

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

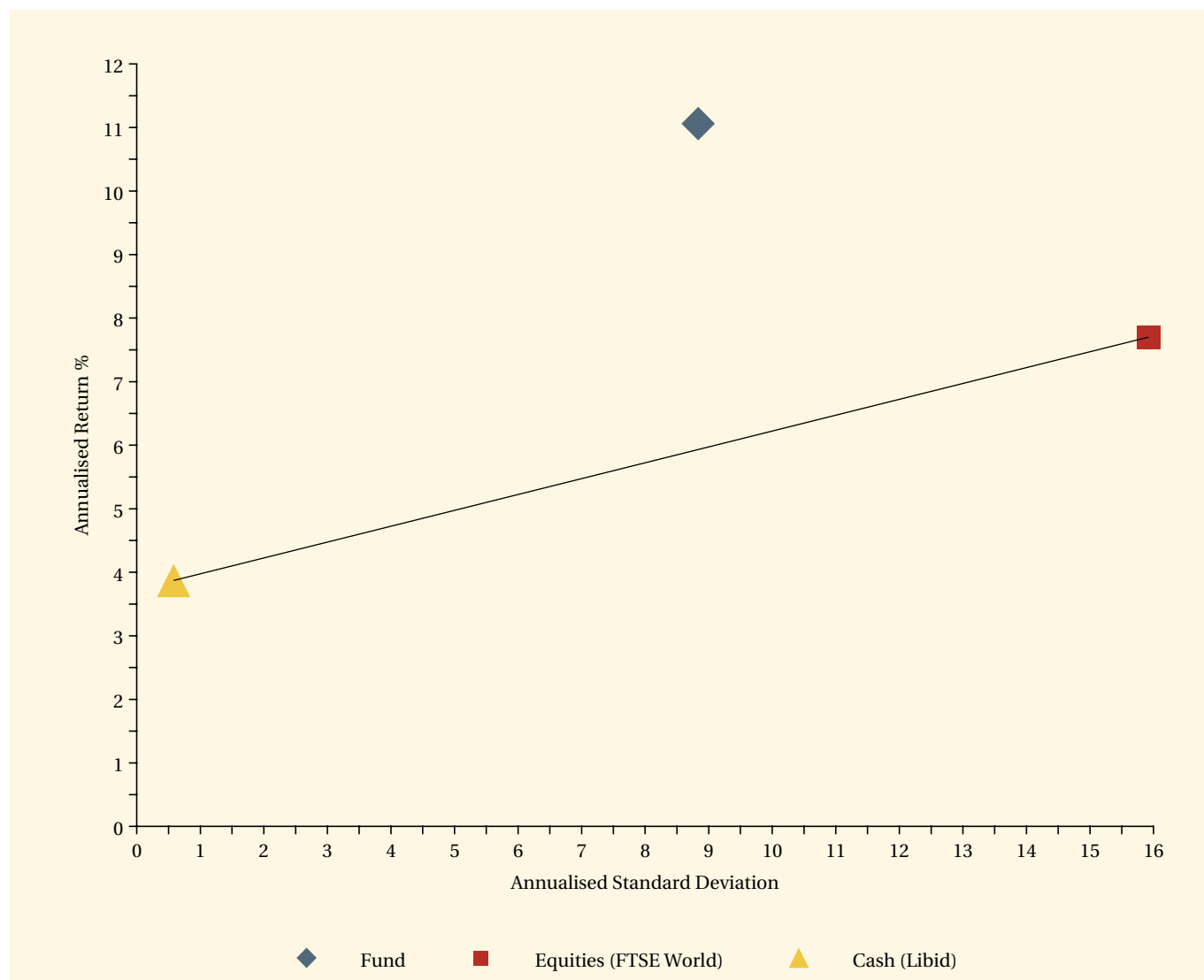
Risk factors

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. The value of bonds is affected by interest rate fluctuations and by changes in the credit ratings of the underlying issuer of the assets. Sub investment grade bonds, may produce a higher level of income than investment grade bonds, but carry increased risk of default on repayment. There are additional risks associated with specific alternative investments that the fund may hold such as commodities; these investments may be less readily realisable than others and it may therefore be difficult to sell in a timely manner at a reasonable price or to obtain reliable information about their value; there may also be greater potential for significant price movements. The fund may also hold derivatives. An investment in derivatives may be volatile, but the volatility of the Fund is not expected to be any greater than that of the underlying stock market.

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
Fund	11.1%	8.8%	0.8
1 month £ Libor +4% p.a.	8.1%		

Source: Lipper, Bloomberg & Datastream, as at 30 September 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 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.	Total, GlaxoSmithKline, Roche, Vodafone, Novartis, Reynolds American
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.	MTN, Tele Norte Leste Participacoes, Advanced Info Service
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, Vodafone, Advanced Info Service
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.	ETFS Physical Gold, Barrick Gold, Index-Linked Bonds, Newmont Mining, Yamada Gold

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 the Investment Adviser, Newton Investment Management Limited (NIM). The Newton Real Return Fund is a sub-fund of BNY Mellon Investment Funds, an investment company with variable capital (ICVC) incorporated in England and Wales under registered number IC27. The Authorised Corporate Director of the Fund is BNY Mellon Fund Managers Limited (BNY MFM). Registered Office for NIM and 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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