

# Global Growth & Income Fund for Charities

Investment Report - Fourth Quarter 2010

► A BNY MELLON COMPANY<sup>SM</sup>

**NEWTON**  
The Power of Ideas



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# Fund information

## Long-term track record

The Global Growth & Income Fund for Charities has returned 84.8% since launch (12 November 2001), which is equivalent to 7.0% per annum. This is an outperformance of 0.9% per annum (net of fees) compared to the fund's benchmark. For more detail on the fund's long-term performance, please refer to page 4.

## Aim

The objective of the fund is to optimise total returns for charities in terms of capital growth and income from a portfolio of global equities and fixed interest securities. The minimum target yield (income) is 3% per annum.

## Performance references

20% FTSE Government All Stocks Index; 50% FTSE All Share; 25% FTSE World (ex UK) and 5% 7-day cash (benchmark).

## Risk profile

Suitable for investors with a medium risk profile.

Unit prices as at 31 December 2010

128.25p (Bid price)

130.13p (Offer price)

## Fund facts

Fund size (millions):	GBP 274	Pay dates:	Feb, May, Aug and Nov
Annual management charge:	0.6%	Last distribution:	1.34p per unit
Total expense ratio:	0.74%	ISIN:	GB0031050544
Base currency:	GBP	Sedol:	3105054
Dividend yield:	4.2%		

# Focus on the latest quarter

## Performance over three months

Global Growth & Income	7.1%		
Benchmark	5.8%		
FTSE All Share	7.4%	FTSE W World (ex UK)	10.0%
		FTA Govt All Stocks	-2.1%

Source: Newton, Datastream & WM, as at 31 December 2010. Calculation basis: Sterling, total return, offer to offer, without initial charges, gross income reinvested, net of management fees. Please note: The Fund's units are priced at noon on each working day; benchmark index values are taken at the end of the day.

## Significant transactions

Acquisitions
Marks & Spencer Group PLC
Cable & Wireless Comms PLC
Daily Mail & General Trust
Severn Trent PLC
Accenture Plc

Disposals
Vinci S.A.
Drax Group PLC
Pennon Group PLC
Germany (Fed Rep) 4% Bds 4/01/2037
Eli Lilly & Co.

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

## Fund manager report

*"It is a miserable state of mind to have few things to desire and many things to fear."*

Sir Francis Bacon : Of Empire

It has been twenty-one months since financial markets began to revive after the surprisingly deep downturn following the demise of Lehman Brothers and the subsequent disruption of the global financial system. Extraordinary measures were needed, most notably the provision of apparently limitless liquidity and the suppression of interest rates to close to zero. The recovery in economic activity seems to have come sooner (and more strongly) than expected, and appears to have further to run. The speed and magnitude of the recovery has been abetted by the dramatic improvement in global trade as the two-way traffic between the developed and the developing worlds resumes, with the former responding to demand for natural, intellectual and commercial resources required to fuel the expansion of the latter.

Over the year, however, there were often severe short-term crises of confidence which overshadowed the revival: concerns over the viability of the Eurozone as the finances of its peripheral members deteriorated; over the continued sluggishness of the U.S. economy and the lack of response, in the unemployment numbers and the housing market, to the

unprecedented financial and fiscal stimulus provided; finally over the impact of austerity measures, introduced in Europe, in the UK and in China where, towards the end of the year, the authorities, to suppress inflationary pressures, introduced further credit restrictions and raised interest rates.

Overall, returns were ahead of earlier expectations at the beginning of 2010. Although bonds delivered a negative return for the final quarter, their returns for the year (7.2%) were ahead of inflation (unlike cash) and equities produced another strong year of performance, with returns of 14.5% from the FTSE All-Share Index and 16.7% from the FTSE World (ex UK) Index.

Over the year, the Fund returned 12.8% (based on the mid-day price) compared to its monthly-adjusted benchmark return of 13.3%. A final dividend of 1.099p per unit has been declared for the final quarter. Despite, therefore, a healthy total return for the year, the dividend paid of 5.3827p is, regrettably, 1.8% short of the dividend of 5.4837p paid in 2009. Market dividend growth has resumed, however, and an improved dividend in 2011 should be forthcoming.

It was puzzling to see bond and equity markets move in the same direction in the summer's 'stealth rally'. Investors appear to have decided that the stimulus

applied for the last 21 months would be successful in creating sustainable growth and, consequently, bonds retreated in the final quarter of 2010, restoring thereby the traditional converse correlation between equities and bonds. It was beneficial to the portfolio to have remained underweight over the year in government bonds and overall in fixed interest assets, given other asset classes have produced superior returns in 2010.

Other than for income and portfolio diversification, we remain wary of fixed interest markets. Inflation of 3.3% (CPI) means that bonds provide a negligible nominal return; over five years, such bonds lose 17.5% of their real purchasing power, if CPI remains at its current level, and much more if current RPI is applied.

Newton's 'world picture' of sluggish growth, continuing deficit reduction, demographic and technological change and global realignment, with growing demand for resources and consumer products, continues to drive portfolio construction and stock selection.

Multi-national companies form the majority of equity assets held. Thematically, these holdings are predominantly 'large cap laggards' with strong balance sheets, healthy cash flows and correspondingly attractive (and growing) dividend yields. However, such holdings are in 'unfashionable' sectors: integrated oils, healthcare and utilities have all underperformed their cyclically-sensitive brethren. However, over the year, Newton portfolios have shifted gently their emphasis, with an increase in the 'real' asset characteristics of the basic materials sector, higher exposure to the recovering financial sector and a reduction in healthcare.

The smaller company element of the portfolio (*Montanaro European, Findlay Park US and Latin American Small Companies*) has performed well in 2010 and has further scope for gains in 2011. The introduction of *Siemens, Accenture, Applied Materials* and *Noble Group* are more direct means of capturing the improvement in the longer-term outlook for activity.

## Conclusion

In many ways, 2011 may be a continuation of 2010, with further economic recovery, but at a slower pace, thanks to recently imposed budget and spending constraints in Europe, as well as to higher interest rates in Norway, Australia, China and India. The concerns will remain the same: how will the life-

support mechanisms which have allowed the world economy to recover be removed without mishap? Questions will be raised once more about the viability of the Eurozone, given the hardening of attitude within Germany towards the profligate peripheral states. How will both hard and soft commodity price inflation have an impact, first, on the developing world and thereafter on the goods exported to the developed world? Will companies be able to pass on price increases or will they attempt to absorb them and thereby disappoint profit expectations? The major question relates to the position, and actions of the United States. It has an avowed policy of currency devaluation and it has been dilatory so far in embracing any restraining measures, despite a budget deficit of 10% of GDP, despite the Federal Reserve's compromised balance sheet and its 'QE2' programme running short of firepower. How indeed will the US federal and state deficits be financed overall?

The volatility of markets during this period of recovery, of which the 'risk on/risk off' trade is the symptom rather than the cause, is unlikely to diminish significantly. Therefore, current bond yields represent a risk in a world where inflationary pressures are rising and in which states and much of the financial sector require significant (re-)financing. However, bonds' 'liquid' features are necessary to any portfolio, particularly when interest rates are likely to remain low for the foreseeable future. Whilst the consensus on equities is worrying simple, namely to buy large cap multi-nationals and emerging markets equities, Newton believes that, whilst the 'large cap laggards' is a theme still worth exploiting, there are other attractive opportunities in smaller companies, resource stocks (real assets which should thrive in both deflationary and inflationary conditions) and in companies committed to growing their dividends.

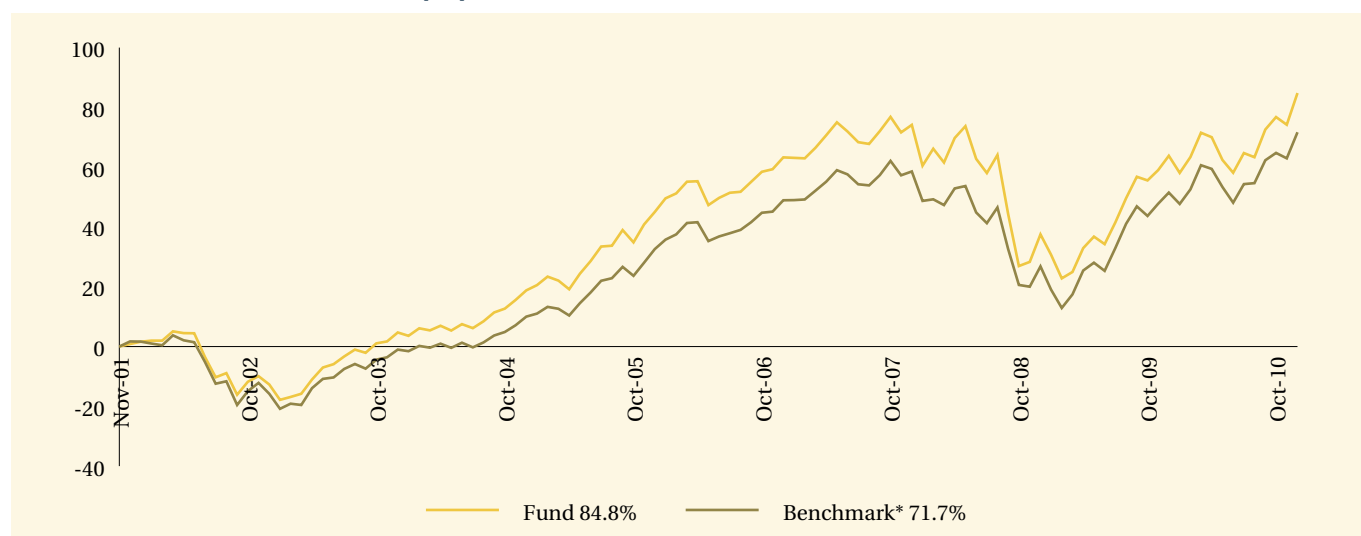
*"Seek not proud riches, but such as thou mayest get justly, use soberly, distribute cheerfully, and leave contentedly."*

Sir Francis Bacon : Of Riches

**Fund manager: Jamie Korner**

# Long-term performance

## Performance since launch (%)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Fund	-	-14.1	20.0	13.4	22.1	12.6	6.6	-21.0	19.1	12.8
Benchmark*	-	-17.2	17.6	11.1	20.5	12.3	6.5	-20.0	19.5	13.3

## Discrete past performance (%)

From	31/12/05	31/12/06	31/12/07	31/12/08	31/12/09
To	31/12/06	31/12/07	31/12/08	31/12/09	31/12/10
Fund	12.6	6.6	-21.0	19.1	12.8

Performance sourced from: Newton, Datastream, WM & Bloomberg, as at 31 December 2010. Calculation basis: Sterling, total return, offer to offer, without initial charges, gross income reinvested, net of management fees. Please note: The Fund's units are priced at noon on each working day; benchmark index values are taken at the end of the day.

\*The benchmark changed on 1 January 2009 to 20% FTSE Government All Stocks Index; 50% FTSE All Share; 25% FTSE World (ex UK) and 5% 7-day cash. Prior to this the benchmark was the WM Total Charities (ex property) Universe.

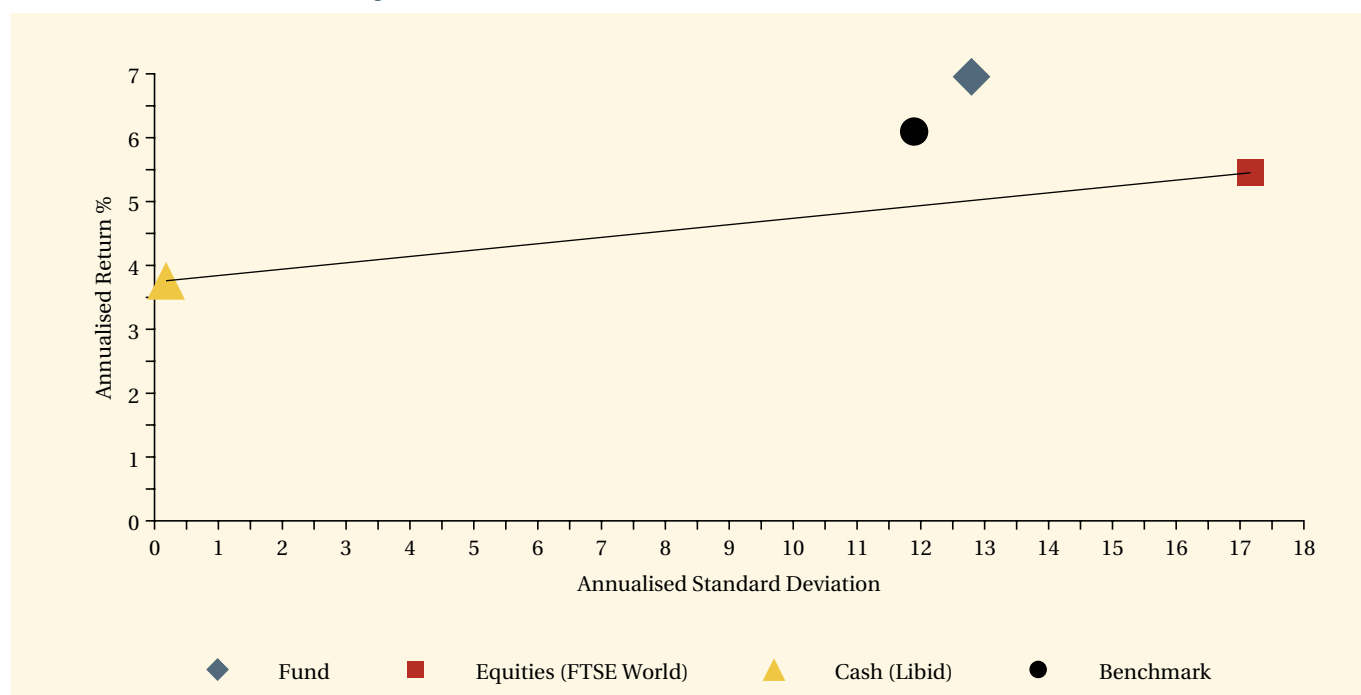
## Risk factors

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. Where the fund holds bonds, their value is affected by interest rate fluctuations and by changes in the credit ratings of the underlying issuer of the assets.

# Long-term performance - risk and reward

## Fund return and volatility since launch



This chart shows both return and volatility. The Global Growth & Income Fund for Charities has given a higher return than cash, world equities and the benchmark with greater volatility than that of the benchmark. The launch date of the fund was 12 November 2001.

## Risk and return since launch

	Annualised Return	Volatility	Sharpe ratio
Fund	7.0%	12.8%	0.2
Benchmark*	6.1%	11.9%	0.2

Performance sourced from: Newton, Datastream, WM & Bloomberg, as at 31 December 2010. Calculation basis: Sterling, total return, offer to offer, without initial charges, gross income reinvested, net of management fees. Please note: The Fund's units are priced at noon on each working day; benchmark index values are taken at the end of the day.

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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.

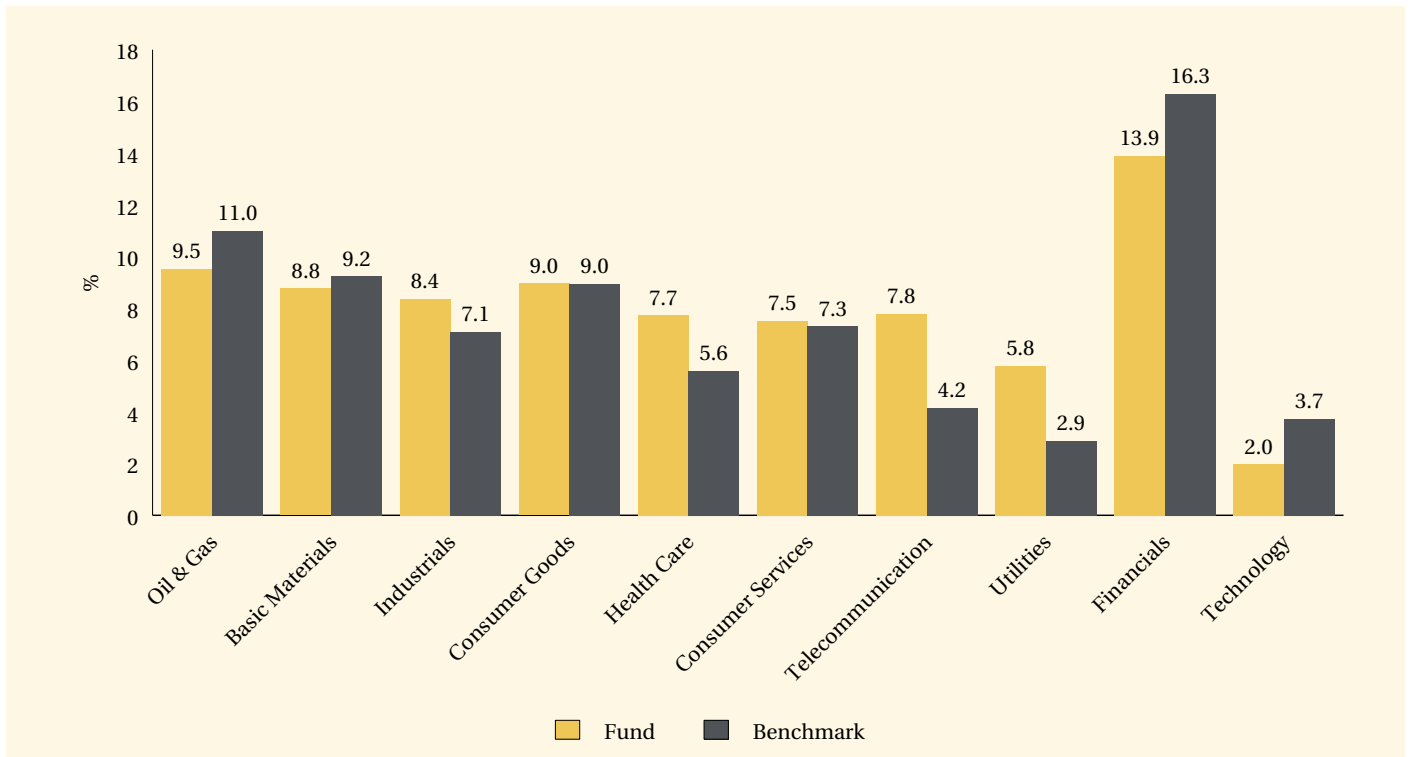
Strategy groups	Representatives from the strategy team, fund managers and research analysts identify global themes and formulate our economic view.
Research team	Global sector analysts, supported by fund managers, identify investment opportunities within the thematic backdrop.
Fund management	Fund managers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

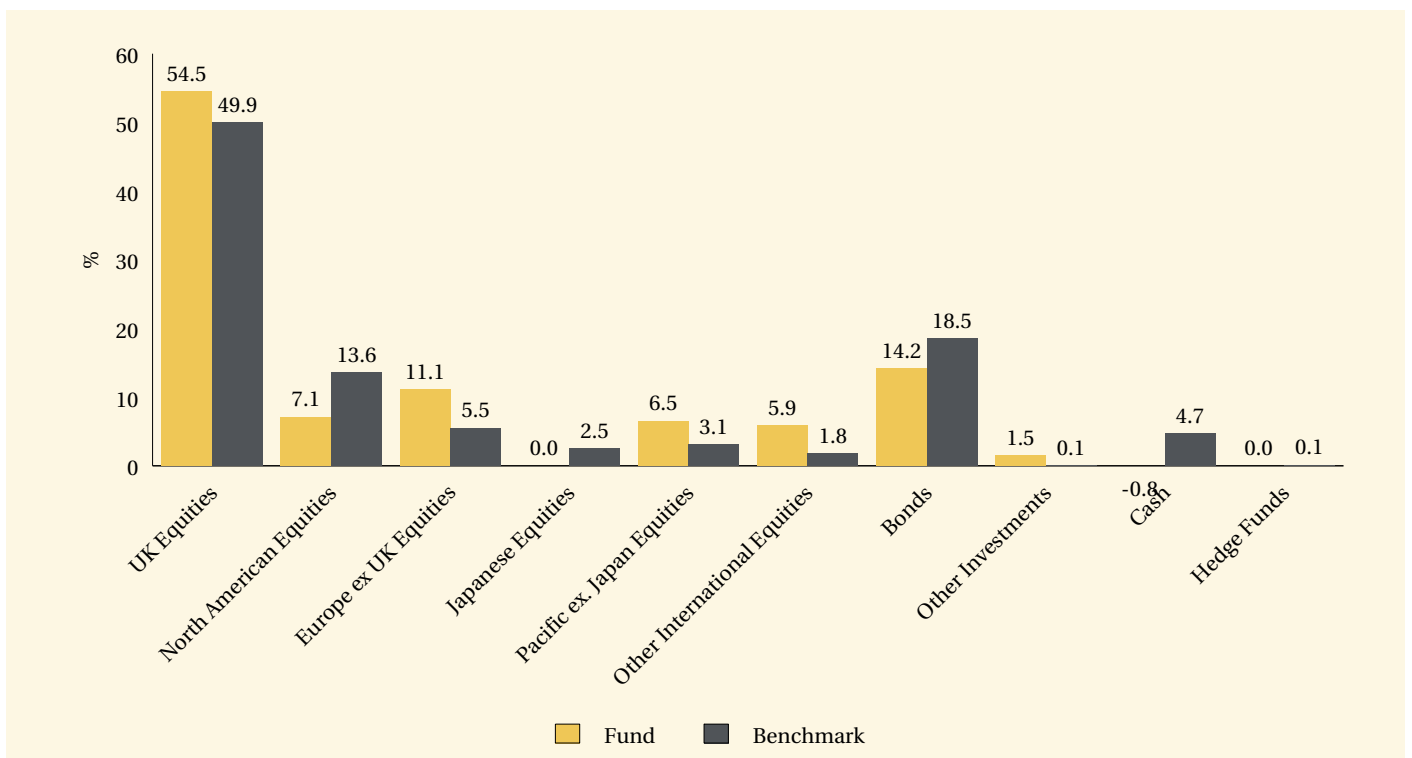
Theme	Factors	Investments
All change	The popping of the credit bubble has marked an end to the era of rapid growth in private sector debt in the developed world. Structurally impaired financial systems and regulatory burdens ensure that credit will be less freely available, and this has profound implications for consumer-driven economies, all asset classes and investment strategies.	Newcrest Mining, Centrica, Unilever, BHP Billiton, Nestle, 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 entail the development of Western-style health and social security systems and will involve significant cyclical influences as well as frictions regarding trade policies.	PZ Cussons, Noble Group, Unilever, Rio Tinto, L'Oreal
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.	Cable & Wireless Communications, Vodafone, Advanced Info Service, Taiwan Semiconductor, Research in Motion
Earth Matters	Environmental issues have moved to centre stage in the minds of the public and policy makers, and a political consensus is emerging in relation to investment in 'green' technology. It is now almost universally accepted that man-made greenhouse gas emissions are an important contributor to climate change. Current growth trends in the developing world suggest that significant additional pressure on resources and the environment is likely in the future.	Fortum, Bayer, Syngenta

# Fund analysis

## Equity weightings by industry



## Regional and asset class weightings



Source for all charts: Newton, as at 31 December 2010.

# Portfolio valuation

	Holding (%)
<b>Equities</b>	<b>85.12</b>
Oil & Gas	9.52
<b>Oil &amp; Gas Producers</b>	<b>8.79</b>
BG Group PLC	0.88
BP PLC	2.42
Royal Dutch Shell PLC	3.96
Statoil ASA	0.78
Total SA	0.74
<b>Oil Equipment Services &amp; Distribution</b>	<b>0.73</b>
Wood (John) Group PLC	0.73
Basic Materials	8.78
<b>Chemicals</b>	<b>1.48</b>
Bayer AG	0.91
Syngenta AG	0.57
<b>Mining</b>	<b>7.30</b>
Anglo American PLC	1.01
BHP Billiton PLC	3.44
Consol Energy Inc	0.60
Newcrest Mining Ltd	1.45
Rio Tinto PLC	0.80
Industrials	8.37
<b>Aerospace &amp; Defence</b>	<b>0.45</b>
Cobham PLC	0.45
<b>General Industrials</b>	<b>2.13</b>
Noble Group Ltd	0.67
Siemens AG	0.55
Swire Pacific Ltd	0.91
<b>Electronic &amp; Electrical Equipment</b>	<b>0.61</b>
Emerson Electric Co	0.61
<b>Industrial Engineering</b>	<b>0.61</b>
IMI PLC	0.61
<b>Industrial Transportation</b>	<b>1.21</b>
BBA Aviation PLC	0.61

# Portfolio valuation

Deutsche Post AG	0.59
<b>Support Services</b>	<b>3.36</b>
Accenture PLC	0.50
Bunzl PLC	0.49
De La Rue PLC	0.60
Diploma PLC	1.19
Experian PLC	0.59
<b>Consumer Goods</b>	<b>8.97</b>
<b>Beverages</b>	<b>2.22</b>
Britvic PLC	1.31
Diageo PLC	0.91
<b>Food Producers</b>	<b>3.96</b>
Associated British Foods PLC	0.97
Nestle SA	0.80
Rei Agro Ltd	0.51
Tate & Lyle PLC	0.85
Unilever PLC	0.84
<b>Household Goods</b>	<b>0.41</b>
Rossi Residencial SA	0.41
<b>Personal Goods</b>	<b>2.37</b>
L'Oreal SA	0.57
Natura Cosmeticos SA	0.67
PZ Cussons PLC	1.13
<b>Health Care</b>	<b>7.74</b>
<b>Health Care Equipment &amp; Services</b>	<b>0.98</b>
Smith & Nephew PLC	0.58
Thermo Fisher Scientific Inc	0.40
<b>Pharmaceuticals &amp; Biotechnology</b>	<b>6.76</b>
Abbott Laboratories	0.46
AstraZeneca PLC	1.30
GlaxoSmithKline PLC	2.43
Johnson & Johnson	0.45
Novartis AG	0.97
Roche Hldgs AG	0.70
Sanofi-Aventis	0.45

# Portfolio valuation

Consumer Services	7.51
<b>General Retailers</b>	<b>1.42</b>
Marks & Spencer PLC	0.98
WH Smith PLC	0.44
<b>Media</b>	<b>1.53</b>
Daily Mail & General Trust PLC	0.65
United Business Media PLC	0.88
<b>Travel &amp; Leisure</b>	<b>4.56</b>
Carnival Corp	0.54
Compass Group PLC	0.64
Go-Ahead Group PLC	0.77
Greene King PLC	1.09
Marston's PLC	1.09
Singapore Airlines Ltd	0.44
Telecommunication	7.78
<b>Fixed Line Telecommunications</b>	<b>3.20</b>
AT&T Inc	0.63
Cable & Wireless Comms PLC	1.36
Tele Norte Leste Participacoes	0.36
Telefonica SA	0.85
<b>Mobile Telecommunications</b>	<b>4.59</b>
Advanced Info Service PCL	0.66
Millicom Intl Cellular	0.40
MTN Group Ltd	0.82
Vodafone Group PLC	2.71
Utilities	5.78
<b>Electricity</b>	<b>2.97</b>
Fortum Oyj	0.99
International Power PLC	0.76
Scottish & Southern Energy PLC	1.23
<b>Gas Water &amp; Multiutilities</b>	<b>2.81</b>
Centrica PLC	1.09
National Grid PLC	1.05
Severn Trent PLC	0.67

# Portfolio valuation

Financials	13.91
<b>Banks</b>	<b>4.44</b>
DBS Group Holdings Ltd	0.80
HSBC Holdings PLC	2.43
Standard Chartered PLC	1.21
<b>Nonlife Insurance</b>	<b>2.66</b>
Amlin PLC	0.75
RSA Insurance Group PLC	0.91
Zurich Financial Services AG	1.00
<b>Life Insurance</b>	<b>2.42</b>
Aviva PLC	1.09
Prudential PLC	0.58
Standard Life PLC	0.75
<b>Real Estate Investment Trusts</b>	<b>0.76</b>
British Land Co PLC	0.76
<b>Financial Services</b>	<b>2.19</b>
AMP Ltd	0.44
Close Brothers Group PLC	0.99
ICAP PLC	0.75
<b>Equity Investment Instruments</b>	<b>1.44</b>
JPMorgan Emerging Markets IT	0.70
Montanaro UK Smaller Co IT PLC	0.75
Technology	1.98
<b>Technology Hardware &amp; Equipment</b>	<b>1.98</b>
Applied Materials Inc	0.46
Cisco Systems Inc	0.49
Research In Motion Ltd	0.41
Taiwan Semiconductor Manufact	0.63
Unitised / Structured Investments (Equities)	4.78
<b>North America</b>	<b>1.18</b>
Findlay Park PLC American Smaller Cos (USD)	1.18
<b>Europe ex UK</b>	<b>0.64</b>
JPMorgan Euro Smaller Cos Tst	0.64
<b>Pacific ex Japan</b>	<b>1.18</b>

# Portfolio valuation

First State Investments (UK) Asia Pacific 'B' Shs (Acc) NAV	0.63
First State Investments (UK) Asia Pacific Leaders 'B' (Acc)	0.55
<b>Other / Non Region Specific</b>	<b>1.77</b>
Findlay Park Funds PLC Latin American USD Fund (Inc)	1.20
First State Investments (UK) Global Emerging Mkts 'B' (Acc)	0.58
<b>Bonds</b>	<b>14.20</b>
Government Bonds	3.95
<b>UK Bonds</b>	<b>3.95</b>
UK Treasury Gilt 4% 7/3/2022 GBP0.01	0.71
UK Treasury Stock 4.25% 7/06/2032 GBP0.01	1.30
UK Treasury Stock 4.25% 7/03/2036 GBP0.01	1.30
UK Treasury Stock 4.75% 7/03/2020 GBP0.01	0.64
Corporate Bonds	10.25
<b>UK Corporate Bonds</b>	<b>8.81</b>
AT&T Inc 5.875% Bds 28/4/2017 GBP50000	0.41
Barclays Bank PLC 6% Bds 29/06/2049 GBP10000	0.34
BASF SE 5.875% Bds 31/03/2017 GBP50000	0.63
Cable & Wireless PLC 8.75% Bds 6/8/2012 GBP(VAR)	0.32
Centrica PLC 5.125% Bds 10/12/2014 GBP	0.39
Close Brothers Group PLC 6.5% Bds 10/02/2017 GBP	0.47
Daily Mail & General Trust PLC 7.5% Bds 29/3/2013 GBP10000	0.44
GE Capital UK Funding 5.875% Bds 4/11/2020 GBP2000	0.66
Go-Ahead Group PLC 5.375% Bds 29/09/2017 GBP	0.51
HSBC Bank PLC 5.75% Bds 27/6/17 GBP1000 EMTN	0.40
John Lewis PLC 6.125% Bds 21/01/2025 GBP	0.57
LBG Capital No.1 PLC 7.5884% Bds 12/05/2020 GBP1000	0.12
LBG Capital No.2 PLC 9.334% Bds 07/02/2020 GBP1000	0.30
National Australia Bank Ltd 5.125% Bds 09/12/2021 GBP	0.55
QBE Insurance Group Ltd 6.125% Bds 28/9/2015 GBP	0.29
Rabobank Cap Funding Trust IV 5.556% Perp 31/12/2049 Reg'S	0.42
Reed Elsevier Investment 7% Bds 11/12/2017 GBP50000	0.42
Scottish & Southern Energy PLC 5.75% Bds 05/02/2014 GBP	0.30
Telefonica Emisiones SAU 5.289% Bds 09/12/2022 GBP50000	0.48
Tesco Property Finance 3 PLC 5.744% Bds 13/04/2040 GBP	0.50
Yorkshire Building Society 5.649% Perp 29/03/2049 GBP	0.27
<b>Overseas Corporate Bonds</b>	<b>1.44</b>

# Portfolio valuation

Anglo American Capital PLC 5.875% Bds 17/04/2015 EUR	0.36
BP Capital Markets PLC 6% Bds 17/03/2015 AUD	0.98
CRC Breeze Finance SA 5.29% Bds 8/05/2026 EUR50000	0.11
<b>Property</b>	<b>1.49</b>
Charities Property Fund	0.70
UK Commercial Property Tst Ltd	0.79
<b>Cash</b>	<b>-0.81</b>

Issued by Newton Investment Management Limited (NIM), the Investment Adviser to the Fund. The Global Growth and Income Fund for charities is a common investment fund authorised by the Charities Commission. The Fund is a registered charity, number 1089229. It is an unregulated collective investment scheme, the promotion of which is restricted by Section 238(1) of the Financial Services and Markets Act 2000. The Fund Manager is BNY Mellon Fund Managers Limited (BNYM). Registered office for NIM and BNYM: BNY Mellon Centre, 160 Queen Victoria Street, London EC4V 4LA. Registered in England No.1371973 (NIM) and No.1998251 (BNYM). NIM and BNYM are authorised and regulated by the Financial Services Authority.

Global Growth & Income Fund for Charities

**Newton Investment Management Limited**

020 7163 9000  
charities@newton.co.uk

**London**

BNY Mellon Centre  
160 Queen Victoria Street  
London EC4V 4LA

**Edinburgh**

2 Festival Square  
Edinburgh EH3 9SU

**Leeds**

1 Whitehall Riverside  
Leeds LS1 4BN

[newton.co.uk](http://newton.co.uk)



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