

# Newton Balanced Bridge Fund

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 Newton Balanced Bridge Fund has returned 103.8% since launch (23 December 1998), which is equivalent to 6.1% per annum. This is an outperformance of 1.6% 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 273	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:	0.7891p per unit
Base currency:	GBP	ISIN:	GB0004833660
Dividend yield:	3.5%	Sedol:	0483366

# Focus on the latest quarter

## Performance over three months

<b>Newton Balanced Bridge</b>	<b>5.9%</b>				
Newton Balanced Index	4.2%	ARC £ Steady Growth est.	5.7%	WM PCI Balanced	5.8%
FTSE All Share	7.4%	FTSE W World (ex UK)	10.0%	FTA Govt All Stocks	-2.1%

Source: Lipper, WM, ARC & Datastream, as at 31 December 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	%
Aberdeen Asset Management PLC	0.25
BHP Billiton PLC	0.22
Taiwan Semiconductor Manufact	0.21
HTC Corporation	0.19
Statoil ASA	0.19

Negative	%
Rio Tinto PLC (not held)	-0.21
Royal Dutch Shell PLC	-0.14
Hypermarcas SA	-0.13
Xstrata PLC (not held)	-0.12
Cable & Wireless Comms PLC	-0.12

## Significant transactions

Acquisitions
BNY MFM Ltd-Newton Gbl High Yld 'X' (Acc)
Go-Ahead Group PLC 5.375% Bds 29/09/2017
DBS Group Holdings Ltd
USA Treasury Bonds 1.375% TII 15/1/2020
MTN Group Ltd

Disposals
UK Treasury Gilt 3.75% 07/09/2019
BG Group PLC
HSBC Infrastructure Co. Ltd
Eli Lilly & Co.
AMP Ltd

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

## Fund manager report

During the recent quarter, equity markets continued the strong rally, aided by the anticipation and then confirmation of additional quantitative easing measures in the US, and broad improvements to economic data. Neither the ongoing debt issues in Europe erupting in Ireland nor an increase in interest rates in China seemed to diminish the appetite for risk. UK equities returned 7.4% over the quarter, resulting in an annual return of 14.5%, as measured by the FTSE All Share index, while world equities rose by 10% over the quarter and 16.7% for the year, according to the FTSE World ex UK index. Bond markets gave back some of their returns for the year and the annual returns from government debt lagged those from corporate bonds, specifically high yield. Against this backdrop, the fund performed well, returning 5.9% for the quarter and 15.1% for the year.

The Fund's positioning continues to be influenced by our *Global Realignment*, *All Change* and *Networked World* themes. Economic sensitivity is focused on Emerging Markets, and the fund has benefited greatly over the year from the increased exposure to Asia. We remain positive on the prospects of Asian and Latin American economies, although we are keeping an eye on rising inflation and the authorities' responses to it. Over the quarter, we added further exposure to Asia through Shenguan Holdings, (Chinese sausage casing manufacturer), Parkway Life (a Singapore healthcare property trust), and DBS (Singapore based bank), and introduced exposure to India through the purchase of Rei Agro, a basmati rice producer.

Consistent with the *All Change* theme, we retain an element of Western stocks that display defensive characteristics, although we have taken some profits in this area over the recent quarter and continue to do so in line with our outlook for the economic recovery gaining traction.

The position in Taiwan Semi Conductor Corporation was increased and Applied Materials added to the portfolio. They are both technology beneficiaries of our Networked World theme. We retain a position in the Taiwanese mobile phone manufacturer, HTC, which was a strong performer over the quarter and significantly contributed to the fund's return over the whole year. Within the telecommunication sector, we introduced exposure to the rapid uptake of mobile phones in Africa through MTN, switching the proceeds from a sale of Millicom, which we believed had become fully valued, and a reduction of Vodafone following good performance.

Commodity prices continued on their upwards path. The gold mining stocks were retained amid the continuing rally in Gold, which breached the \$1400 per oz. level during the quarter, and contributed significantly to performance of the fund throughout the year. Exposure to energy was increased by adding to the position in Statoil, following a period of poor performance. It has an attractive dividend yield of 4%.

Bond yields declined on the expectation of further quantitative easing in the U.S, rather than the actual announcement from the Federal Reserve in November, and then began to rise through the rest of the quarter. The effect of this was seen most notably in government debt. We took profits in bonds which mature within the next 10-25 years and reinvested the proceeds predominantly in shorter dated holdings, whose value should be less affected by rising yields. Longer term, we are negative in our outlook for traditional bonds as we anticipate inflation to rise faster than interest rates. Therefore, we introduced holdings in U.S. index linked government bonds, selecting the U.S. market as it offered the best relative value on a global basis. Within corporate bonds we have taken profits over the quarter in investment grade bonds and reinvested in the Newton Global High Yield Bond Fund, an actively managed diversified portfolio of high yield bonds.

In addition to inflation linked bonds, we continue to hold infrastructure funds, which provide a steady income that offers some protection against inflation.

Continuing low interest rates in Western economies and further intervention in the bond market in the form of another round of quantitative easing in the U.S. are helping to drive asset prices higher and we are starting to see rising inflation around the globe. As mentioned, this is negative in the long term for nominal bonds and will become problematic for equities if it gets out of hand. In response, many Asian countries, Australia and Brazil have already started to raise interest rates and in some cases implement further tightening measures such as increased reserve requirements in China and capital controls in Brazil. As economic data strengthens in the West, underpinning a sustained recovery, we anticipate central banks will start to raise interest rates here too, potentially in the second half of 2011, to combat inflation. The reaction of financial markets to initial interest rate rises following a recession is historically volatile, and this in combination with the ongoing debt issues faced by peripheral Europe are the main visible risks to markets in the short term. The ability of the West to maintain a recovery as stimuli packages are withdrawn and economies are left to walk on their own two feet remains key to the strength of equity markets this year. In summary, we are cautiously optimistic, and position the fund accordingly, with a broad mix of exposure to the secular trends that we believe are important. This predominantly includes emerging markets growth, the rising opportunities driven by increased network bandwidth, and the implications and opportunities this has for all sectors, in addition to increased demand for a broad range of resources, specifically those that are constrained in their supply. However, we also maintain a core of yielding Western stocks, which along with their certainty of return in the form of a growing dividend, have strong balance sheets and provide some hedge to volatility of the more cyclical sectors.

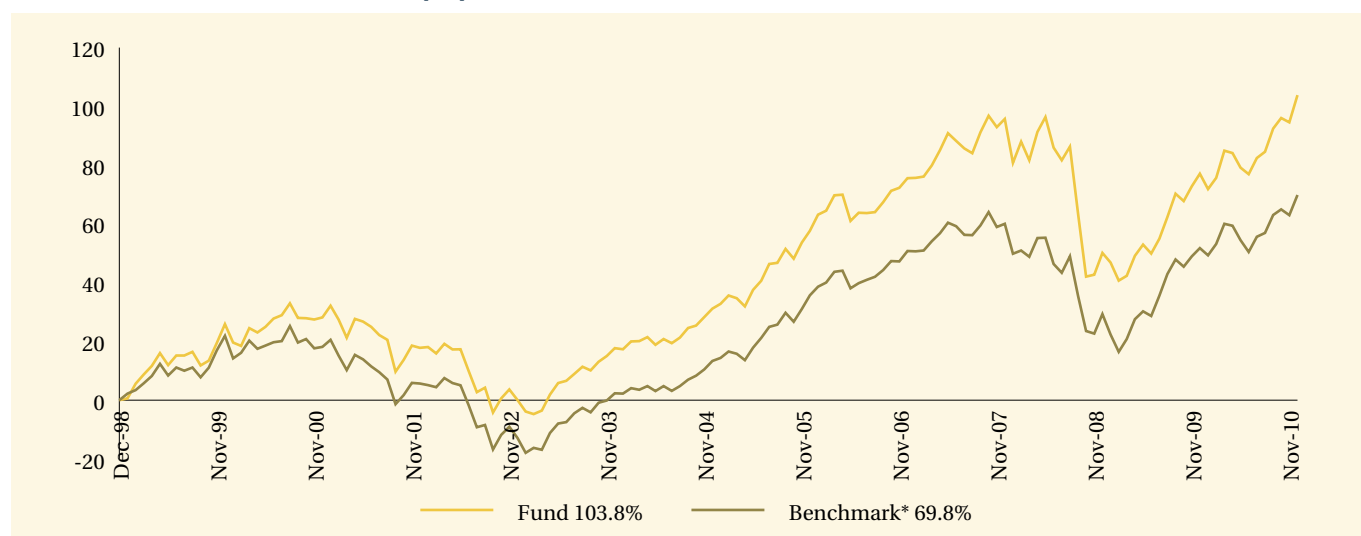
Balanced Bridge Fund paid its first quarterly dividend at the end of December, a transition from semi-annual payments.

**Fund management team:**

**Julie-Ann Ashcroft and Caroline Tye**

# Long-term performance

## Performance since launch (%)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Fund	-8.1	-15.1	17.7	11.5	20.2	11.4	11.5	-23.3	17.9	15.1
Benchmark*	-10.6	-17.5	17.5	10.8	19.6	11.1	6.1	-19.2	17.4	11.9

## 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	11.4	11.5	-23.3	17.9	15.1

Source: Lipper, WM & Datastream, as at 31 December 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.

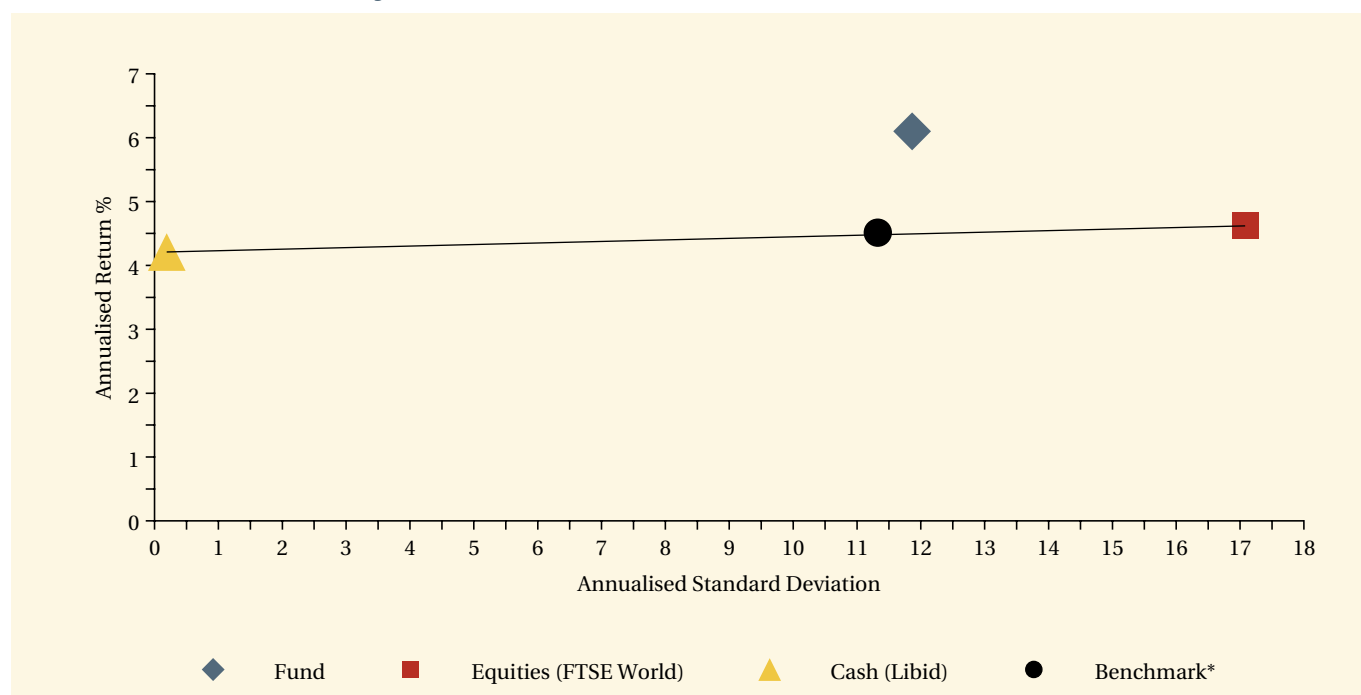
## Risk factors

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	6.1%	11.9%	0.2
Benchmark*	4.5%	11.3%	0.0

Source: Lipper, WM & Datastream, as at 31 December 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.

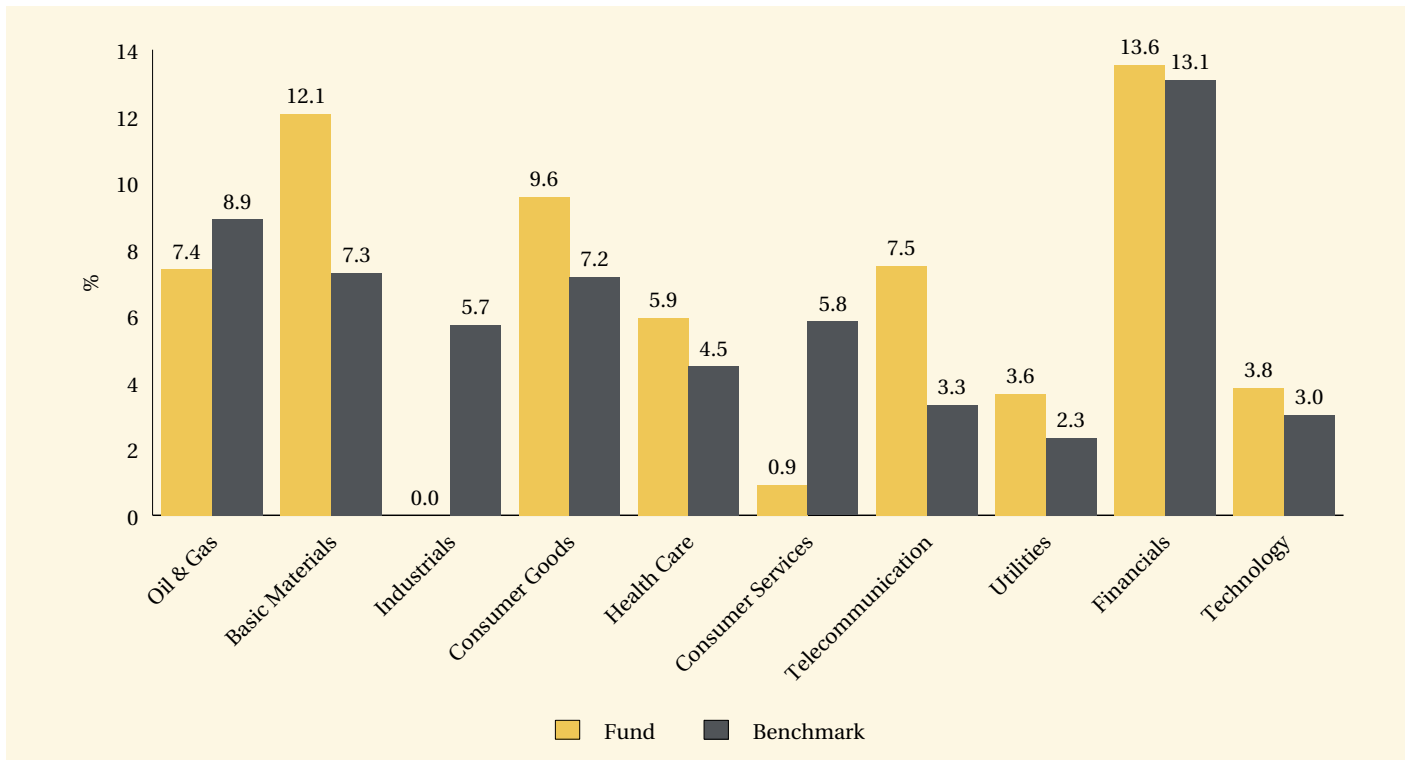
Strategy groups	Representatives from the strategy team, fund managers and research analysts identify global themes and formulate our economic view.
Research team	Global sector analysts, supported by fund managers, identify investment opportunities within the thematic backdrop.
Fund management	Fund managers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

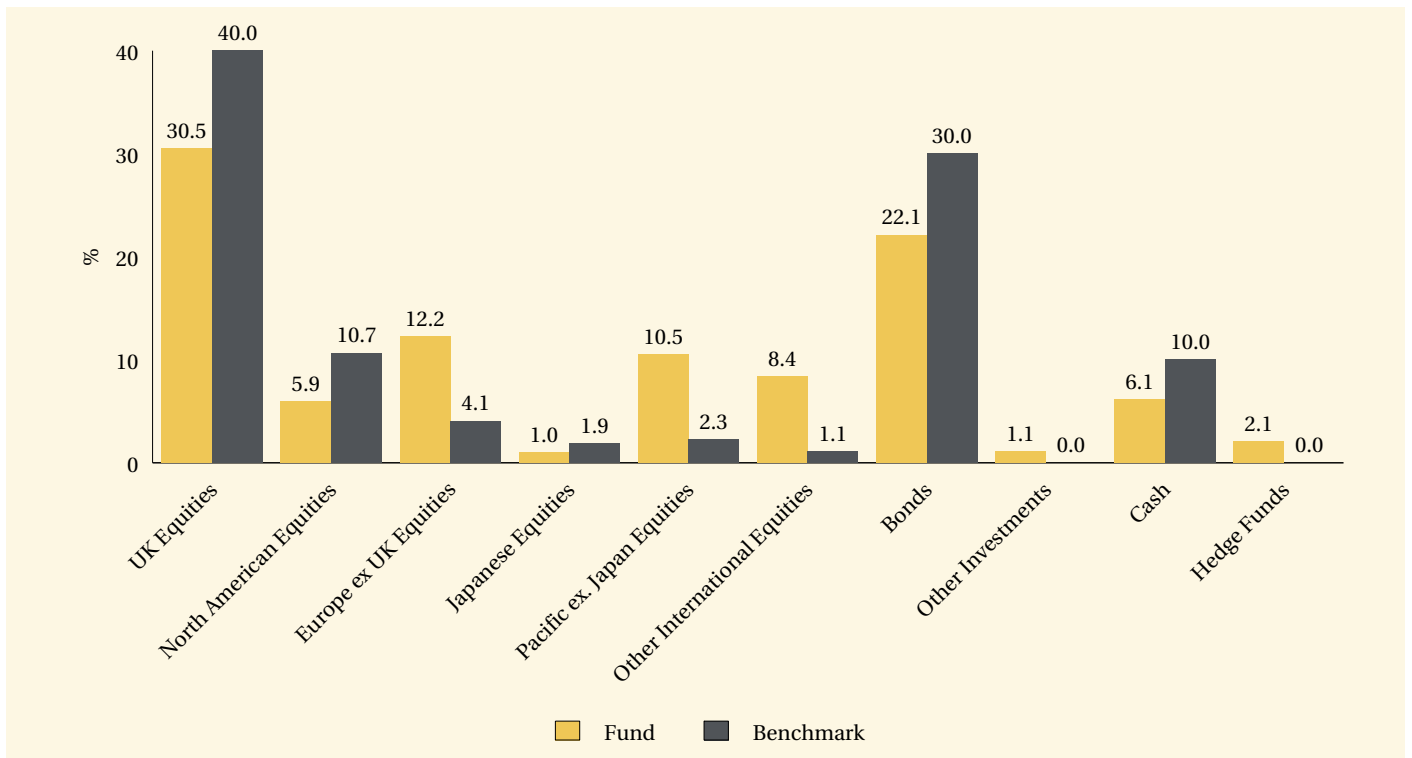
Theme	Factors	Investments
All change	The popping of the credit bubble has marked an end to the era of rapid growth in private sector debt in the developed world. Structurally impaired financial systems and regulatory burdens ensure that credit will be less freely available, and this has profound implications for consumer-driven economies, all asset classes and investment strategies.	Barrick Gold, GSK, infrastructure funds, Jardine Lloyd Thompson, Newcrest Mining, 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, Hypermarcas, Mapletree Logistics, Natura Cosméticos, Petrobras, Rei Agro
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.	HTC, MTN, Sprint, Telekomunikacja Polska, Vodafone
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.	Bayer, Syngenta

# Fund analysis

## Equity weightings by industry



## Regional and asset class weightings



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

Issued by the Investment Adviser, Newton Investment Management Limited (NIM). The Newton Balanced Bridge Fund is an authorised unit trust operated by 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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