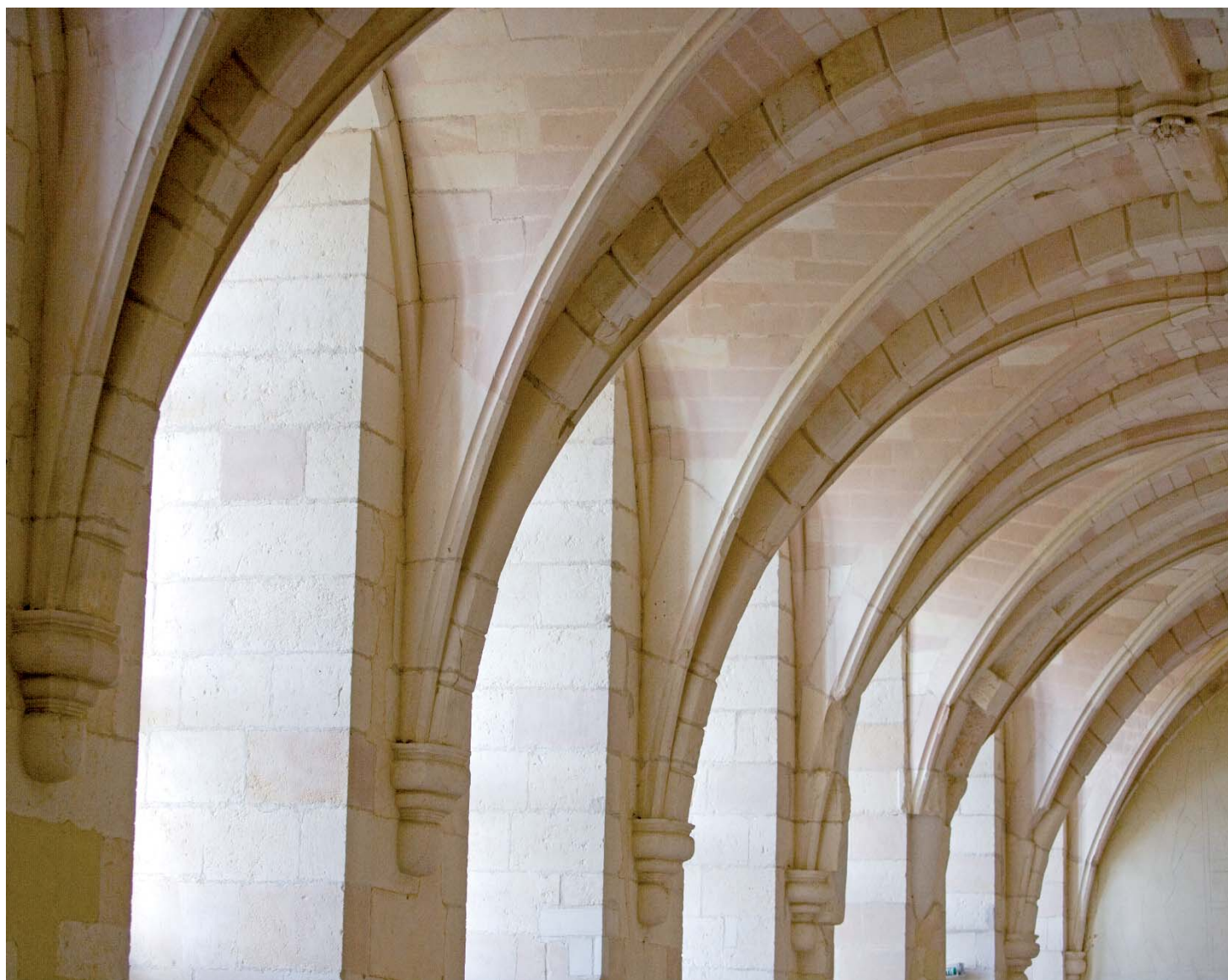


Newton Falcon Fund

Investment Report - Fourth 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 149.7% since launch (13 November 1998), which is equivalent to 7.8% 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.

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 128	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:	1.55%	Last distribution:	2.1654p per unit (inc units only)
Base currency:	GBP	ISIN:	GB0032585050
Dividend yield:	1.1%	Sedol:	3258505

Focus on the latest quarter

Performance over three months

Newton Falcon Fund	9.7%				
Benchmark	8.7%	ARC £ Equity Risk (est)	7.9%	IMA Global Growth	10.4%
FTSE All Share	7.4%	FTSE World ex UK	10.0%		

Source: Lipper, 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	%
Pandora A/S	0.43
HTC Corporation	0.39
Mosaic Co	0.24
Principal Financial Group	0.23
AstraZeneca PLC (not held)	0.23

Negative	%
Sprint Nextel Corp	-0.27
Bangkok Bank PCL	-0.23
Anglo American PLC (not held)	-0.21
Bunzl PLC	-0.19
Rio Tinto PLC (not held)	-0.18

Significant transactions

Acquisitions
Mosaic Co.
Pandora A/S
Medtronic Inc.
Dollar General Corp.

Disposals
Eli Lilly & Co.
Nomura Holdings Inc.
John Wood Group PLC
Natura Cosméticos S.A.

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

Fund manager report

Global equity markets put in a very strong finish to 2010, led by high returns from the commodity sectors, as well as industrials. Your Fund essentially kept pace with this rally, helped by some good performance in the financial and technology sectors. The Fund's total return for the year, after fees, was 18.5%, substantially ahead of the benchmark return of 15.7%. The most significant positive contribution came from HTC, a Taiwanese producer of smartphones, which provided a return in sterling terms of over 200% during 2010. The company's sales have grown very rapidly as phones using Google's Android operating system have gained a foothold in a market previously dominated by Apple, Nokia, and Blackberry. The financial sector was an area of strength for the fund, featuring large share price gains from Bangkok Bank, Principal Financial in the US, ICAP in the UK,

and US bank BB&T (helped by a timely sale of our holding in the first half of the year). This is in contrast to the lacklustre returns produced by the benchmark sector, especially amongst the banks. Lastly, we also had a number of successes in the consumer sectors. Some of these were emerging market companies, such as the Macau casino operator Sands China, but some developed world companies also contributed strongly, including Pandora, a jewellery company that we bought recently at its IPO, and Altria, the US tobacco company. The basic materials sector, dominated by mining and chemical companies, made a large positive contribution to the Fund's absolute return, but did not have a significant impact on relative performance, given how strongly the benchmark sector performed. The main area in which the Fund fell significantly behind the benchmark was

industrials. This sector delivered strong returns over the year, but our holdings were dominated by aerospace and defence companies, whose share prices were held back by concerns about government spending.

Turning to the changes we made during the quarter, the largest purchase was Mosaic, a leading producer of phosphate and potash fertiliser. The demand outlook is good, driven by strong crop prices, and supply is tight given an oligopolistic market structure and low inventories at both producers and users after several years of under-application by farmers. We believe that earnings forecasts significantly underestimate the potential for higher fertiliser prices. The company also has the additional tailwind of significant capacity expansion.

We also purchased shares of Pandora, which sells affordable jewellery, principally charm bracelets, in North America, Europe and to a lesser extent in developing markets in Asia and Latin America. The company is currently enjoying very high growth rates, and with the penetration of branded jewellery still low in this segment of the market we believe this can continue. Margins and returns on capital are high and Pandora's scale and manufacturing facility in Thailand give it cost advantages over competitors. We purchased a holding in the Initial Public Offering at a multiple of 17 times forecast 2010 net income, which we judged undemanding in light of the company's growth prospects and return profile.

The Fund already held a small position in Medtronic, a large, diversified US medical technology business that has been a disappointing investment so far. We increased the holding substantially during the quarter. The shares have been de-rated over many years in spite of very respectable earnings growth. More recently, this has happened against a background of slowing earnings growth, delays to new product launches, and some disappointing acquisitions. This is still a company that makes attractive returns on capital, has a product pipeline, and trades on less than eleven times current year earnings with very little net debt. Even a modest re-rating could deliver material upside. Potential catalysts for this include new product approvals, management change (which appears imminent), and an improvement in US employment removing the pressure from lower health insurance coverage. The purchase was funded by selling the holding of Eli Lilly following the company's decision to halt development of one of its late phase Alzheimer's drugs, and the FDA's decision not to approve a diabetes drug on the basis of Lilly's existing trial data. Whilst the valuation

reflects very little expectation of success in pipeline drugs, the company is spending a significant amount of its cash flow on drug development with little to show for it. Medtronic does not face the same issues of patent expiry and high development costs.

Other sales included Natura Cosméticos, the Brazilian cosmetics company. Natura remains a high quality company with growth prospects, but we were concerned that the shares had become too expensive against a background of ubiquitous investor enthusiasm for exposure to consumers in emerging markets. Less successfully, we sold the holding in Nomura Holdings, after a partial recovery in the share price. We initially thought that there was an opportunity for Nomura, as a well-capitalised investment bank, to build a business in the US after the financial crisis removed or impaired several competitors. However, competition has remained intense, and Nomura has struggled with taking on additional costs in a fairly weak trading environment. Lastly, we sold the oil service company Wood Group, with the shares trading at a less attractive valuation following good performance.

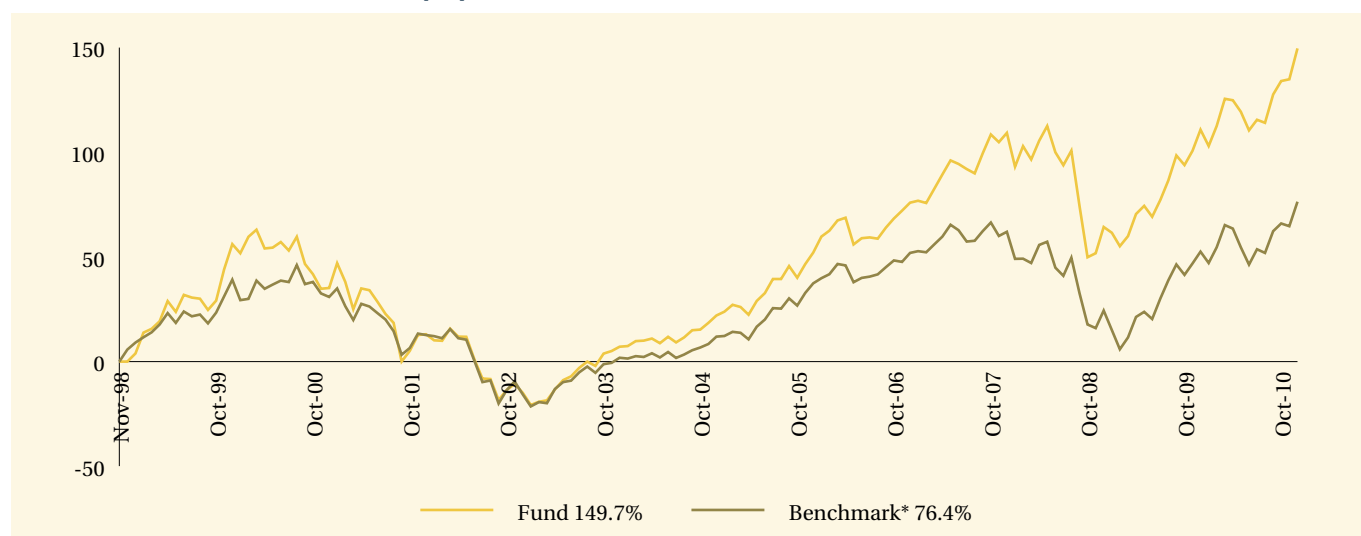
Investors face an ongoing struggle to balance the excitement caused by extraordinary stimulus measures, impressive growth in developing economies, and rampant commodity prices, against the very serious debt burden of the developed world that at best will drag on the world economy for years to come. We caution our investors to expect another bumpy ride in 2011.

Fund manager:

Robert Hay

Long-term performance

Performance since launch (%)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Fund	-16.4	-24.8	26.0	14.0	24.6	15.7	19.0	-21.5	28.3	18.5
Benchmark*	-13.9	-25.2	20.8	9.9	22.8	10.6	6.6	-23.2	22.6	15.7

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	15.7	19.0	-21.5	28.3	18.5

Source: Lipper & Datastream, as at 31 December 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 (£).

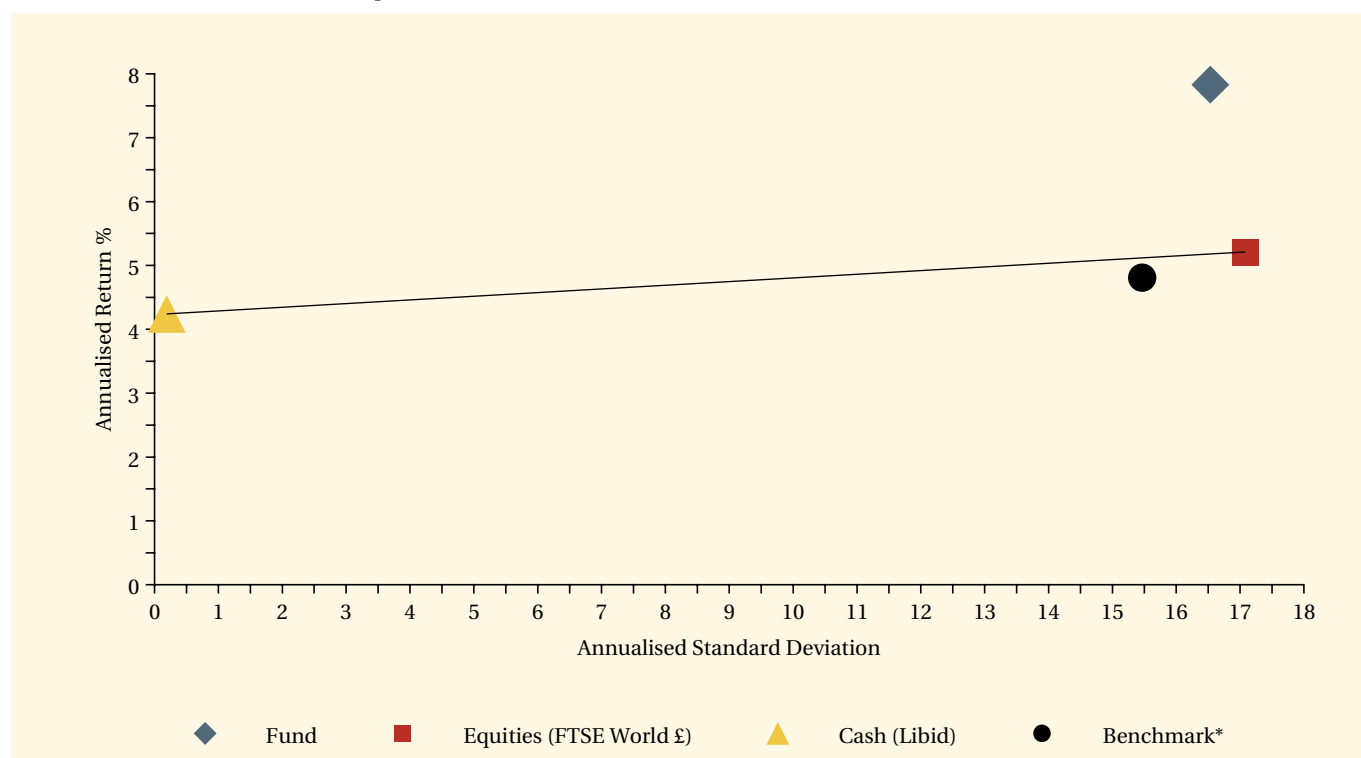
Risk factors

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 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
Fund	7.8%	16.5%	0.2
Benchmark*	4.8%	15.5%	0.0

Source: Lipper & Datastream, as at 31 December 2010. Calculation basis: Sterling, total return, bid to bid, without initial charges, net income reinvested, net of management fees.

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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.

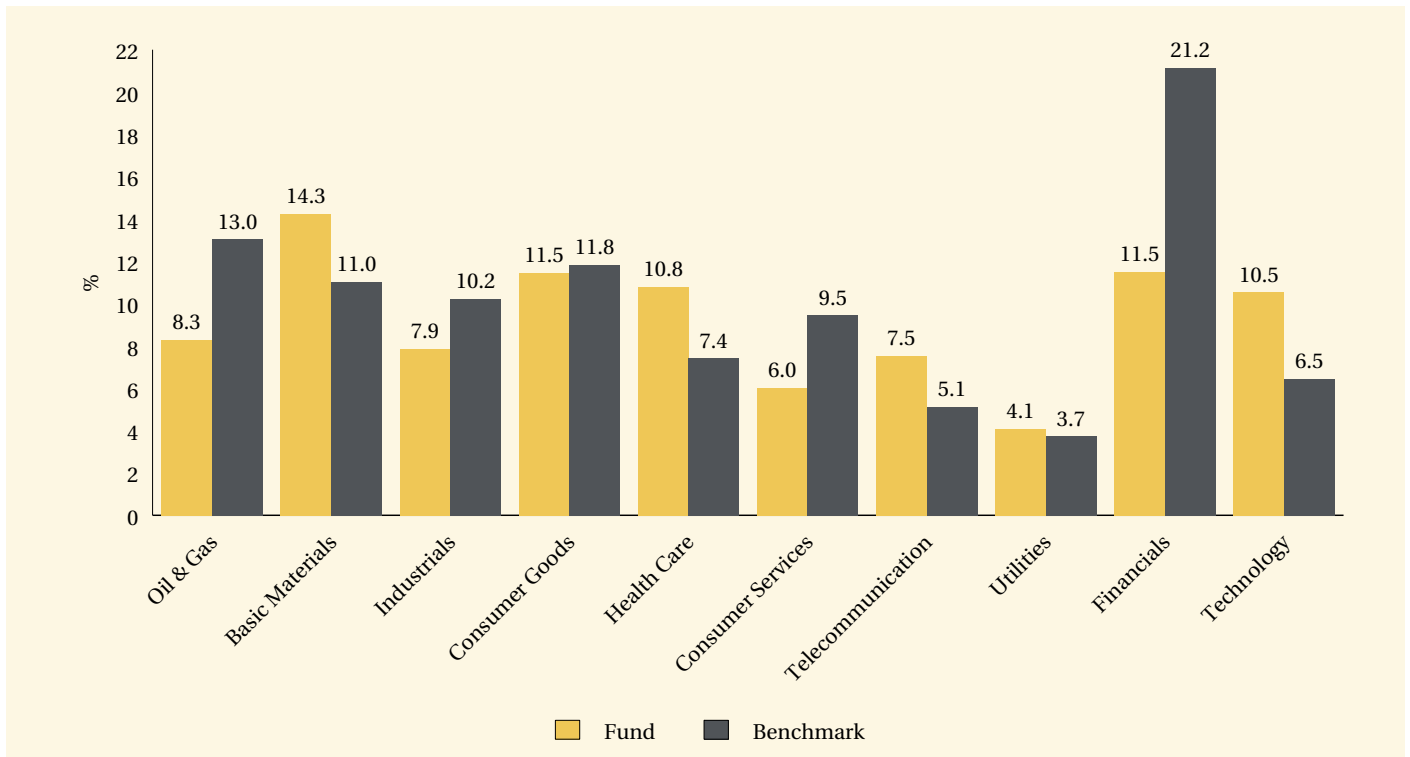
Strategy groups	Representatives from the strategy team, fund managers and research analysts identify global themes and formulate our economic view.
Research team	Global sector analysts, supported by fund managers, identify investment opportunities within the thematic backdrop.
Fund management	Fund managers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

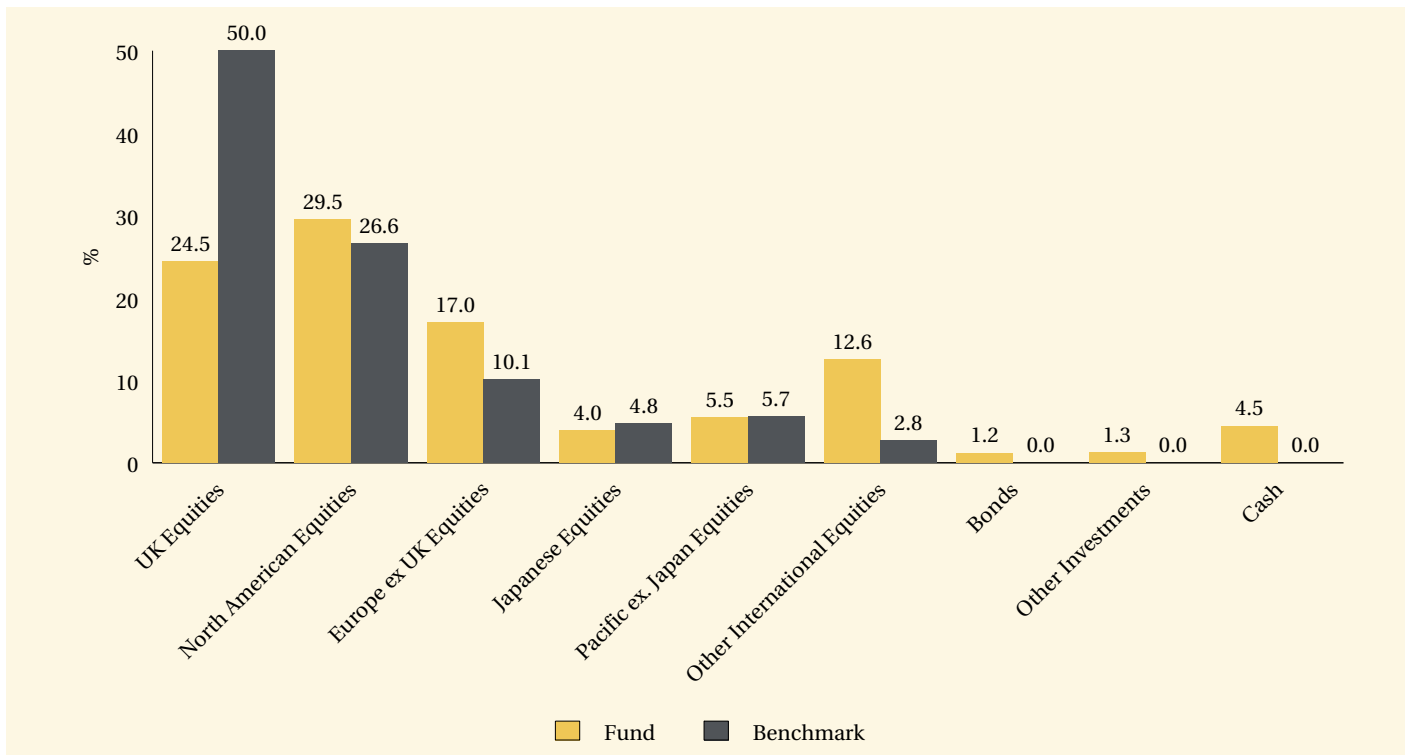
Theme	Factors	Investments
All change	The popping of the credit bubble has marked an end to the era of rapid growth in private sector debt in the developed world. Structurally impaired financial systems and regulatory burdens ensure that credit will be less freely available, and this has profound implications for consumer-driven economies, all asset classes and investment strategies.	Altria, Deutsche Telekom, Flir Systems, GlaxoSmithkline, HTC, Intel, Nestle, Novartis, Vodafone, 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, Camelot Information Systems, Copasa, Hypermarcas, Inpex, MTN, Potash Corp, 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, MTN, Sprint Nextel
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, Mosaic, Potash Corp, 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.

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