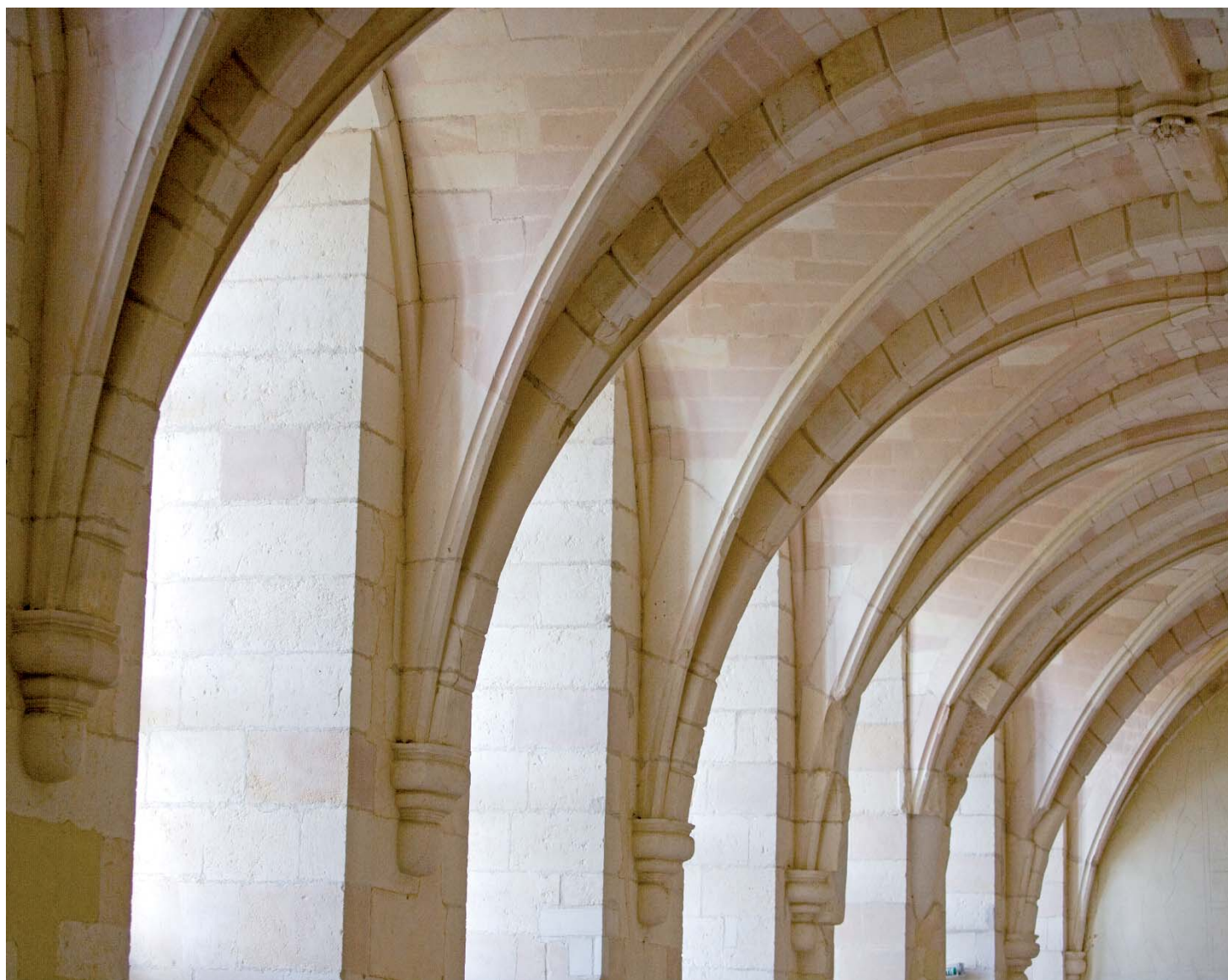


Newton Falcon Fund

Investment Report - First Quarter 2011

► 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
Fund analysis	7
Glossary	8

Fund information

Long-term track record

The Newton Falcon Fund has returned 150.5% since launch (13 November 1998), which is equivalent to 7.7% per annum. This is an outperformance of 2.9% 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 133	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:	1.0%	Sedol:	3258505

Focus on the latest quarter

Performance over three months

Newton Falcon Fund	0.3%				
Benchmark	1.7%	ARC £ Equity Risk (est)	0.7%	IMA Global Growth	0.5%
FTSE All Share	1.0%	FTSE World ex UK	2.3%		

Source: Lipper, Datastream & ARC, as at 31 March 2011. Calculation basis: Sterling, total return, bid to bid, without initial charges, net income reinvested, net of management fees.

Major contributors to relative performance

Positive	%
INPEX Holdings Inc.	0.41
HTC Corporation	0.29
Petrohawk Energy Corp.	0.24
Fresenius Medical Care AG	0.20
Potash Corp of Saskatchewan	0.16

Negative	%
Pandora A/S	-0.34
Associated British Foods PLC	-0.27
Canon Inc.	-0.27
Carnival PLC	-0.25
BG Group PLC (not held)	-0.21

Significant transactions

Acquisitions
China Mobile Ltd
Mitsubishi Corp.
Lukoil Holdings
Serco Group PLC
Weatherford International Ltd

Disposals
Transocean Ltd
Consol Energy Inc.
Smith & Nephew PLC
Deutsche Telekom AG
Genzyme Corp.

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

Fund manager report

Equity markets have shown remarkable resilience in the face of political, economic and natural adversity during the latest quarter. Whilst the Eurozone Sovereign debt crisis rumbles on, unrest and conflict in the Middle East and North Africa has pushed up the price of oil, further exacerbating investors' concerns about inflation amidst rising food and other input prices, in an environment of ultra-loose monetary policy. The tragic events in Japan and the resulting fears of nuclear contamination following the damage caused by the Tsunami have further added to investors' jitters. Yet amidst this turbulent set of events, UK equities scraped a positive return of 1.0% (FTSE All Share) and overseas equities advanced 2.3% (FTSE World ex UK) in the first quarter. Against this backdrop, the Falcon Fund delivered only a modestly positive return of 0.3%, trailing the benchmark.

The main areas of weakness for the Fund were in the technology and consumer sectors. The three most detrimental consumer holdings (Pandora, Associated British Foods, and Carnival) all suffered from investors' concerns about the rapid rises in key input costs, respectively precious metals, cotton, and oil. Pandora have thus far been successful in pushing through price increases to counter increase gold and silver costs, but the share price reacted badly to a conservative forecast of 2011 results from management (which nonetheless predicted a 25% increase in sales). We continue to find the business model attractive, and we have increased the holding in the belief that the shares are very good value given the growth potential. Elsewhere in the portfolio the Fund benefited from the commodity price increases that have caused those same input cost pressures. The investments

in the oil and gas sector returned over 11.5% led by Inpex, which as a supplier of natural gas to Japan finds itself well-positioned for national energy priorities in the wake of the Fukushima nuclear disaster. Transocean continued to recover, and we took the decision to sell the holding, whilst Petrohawk Energy, the Fund's most significant investment in US natural gas, performed strongly. Agricultural chemicals were similarly another area of strength, led by Potash Corporation of Saskatchewan and Syngenta.

Whilst there were successes in the technology sector, notably another strong performance from smartphone designer HTC, the Fund's investments in large, long-established companies generally had a poor quarter in spite of their shares already being priced at undemanding valuations. The likes of Canon, Cisco, Microsoft and Intel are perceived to be threatened by disruptive technology and greater levels of competition from new entrants. We have now sold the holding of Cisco, but retained the others. Accenture, meanwhile, which has been benefiting from corporations increasing their spending on new technology deployments, performed well during the quarter. Other good contributions came from the operator of dialysis service centres Fresenius Medical Care, which we increased significantly at the start of the year, and Bangkok Bank, which is benefiting from accelerating loan growth in Thailand funded from the bank's very strong capital position.

As mentioned above, we sold the holding in Transocean following a strong recovery in the share price, on concerns that new supply will depress drilling rig rental rates. We reinvested the proceeds into Lukoil, an attractively valued Russian oil company with very large reserves, and also bought a holding in Weatherford International in order to maintain some oil service exposure. Also within the resources sectors we sold the investment in Consol Energy, a US producer of coal and Natural Gas, towards the end of the quarter. All of our energy-related investments performed well following the Fukushima disaster, and from a tactical point of view we thought it wise to reduce some commodity exposure before the potentially imminent halt to the Federal Reserve's "Quantitative Easing" programme.

Vodafone has finally produced some good performance over the last twelve months, helped by the company's decision to realise some value from its numerous minority stakes in other telecommunication companies. We decided to sell the holding, feeling that the shares had done enough, and mindful of the possibility of further downward pressure on "voice" revenues from

regulation and greater use of Skype on mobile phones. We also sold the holding in Deutsche Telekom for similar reasons. The proceeds were reinvested in China Mobile, which we believe will not face the same pressure as voice tariffs are already very low, and will therefore be able to benefit to a greater extent from the growth of mobile data usage.

We also purchased a new holding in Serco, believing that the drive to reduce the cost of UK public services will continue to provide additional opportunities for the company, and the valuation is very reasonable given the stability provided by its long term service contracts. We also sold two healthcare investments that had been linked to takeover offers, real or rumoured. Sanofi-Aventis increased the price of their bid for Genzyme, at which point we sold our remaining holding. Smith and Nephew shares, meanwhile, responded very well to rumours of talks with Johnson and Johnson. We felt that a deal was unlikely and as a result the valuation was looking full, so we decided to sell the holding.

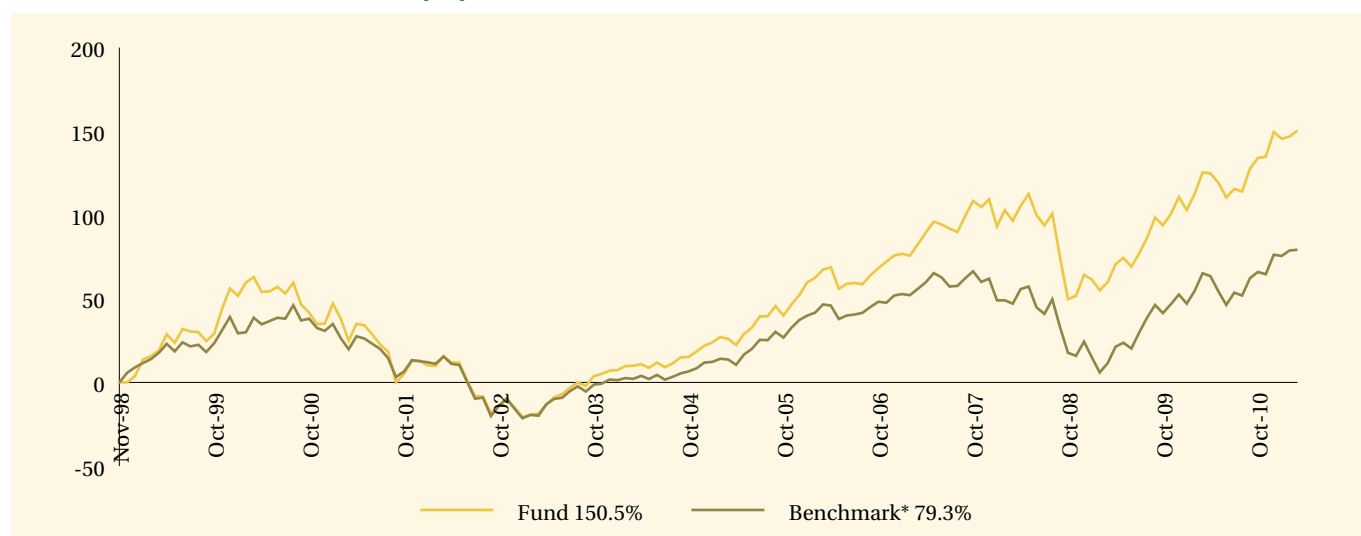
The market backdrop continues to be characterised by a struggle between highly expansionary cyclical forces and distinctly more deflationary structural headwinds. As we have written in previous reports, we aim to strike a balance between these opposing forces, whilst allowing the effects of individual stock selection to have a significant impact on investment performance.

Fund management team:

Robert Hay and Catriona Blackwell

Long-term performance

Performance since launch (%)



	2002	2003	2004	2005	2006	2007	2008	2009	2010	YTD 2011
Fund	-24.8	26.0	14.0	24.6	15.7	19.0	-21.5	28.3	18.5	0.3
Benchmark*	-25.2	20.8	9.9	22.8	10.6	6.6	-23.2	22.6	15.7	1.7

Discrete past performance (%)

From	31/03/06	31/03/07	31/03/08	31/03/09	31/03/10
To	31/03/07	31/03/08	31/03/09	31/03/10	31/03/11
Fund	9.0	7.7	-18.7	41.0	11.1

Source: Lipper, Datastream & Bloomberg, as at 31 March 2011. 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 (£).

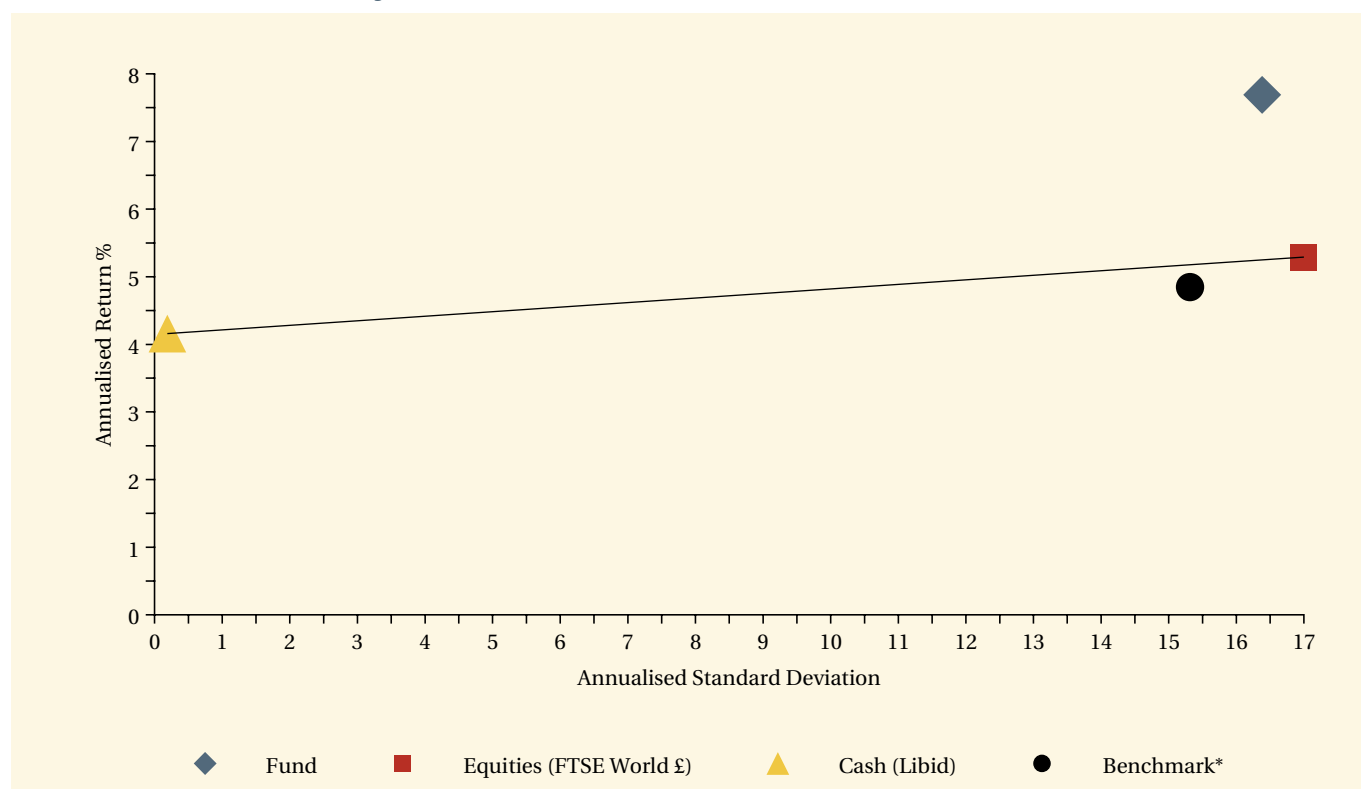
Risk factors

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	7.7%	16.4%	0.2
Benchmark*	4.8%	15.3%	0.0

Source: Lipper, Datastream & Bloomberg, as at 31 March 2011. 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 (£).

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.

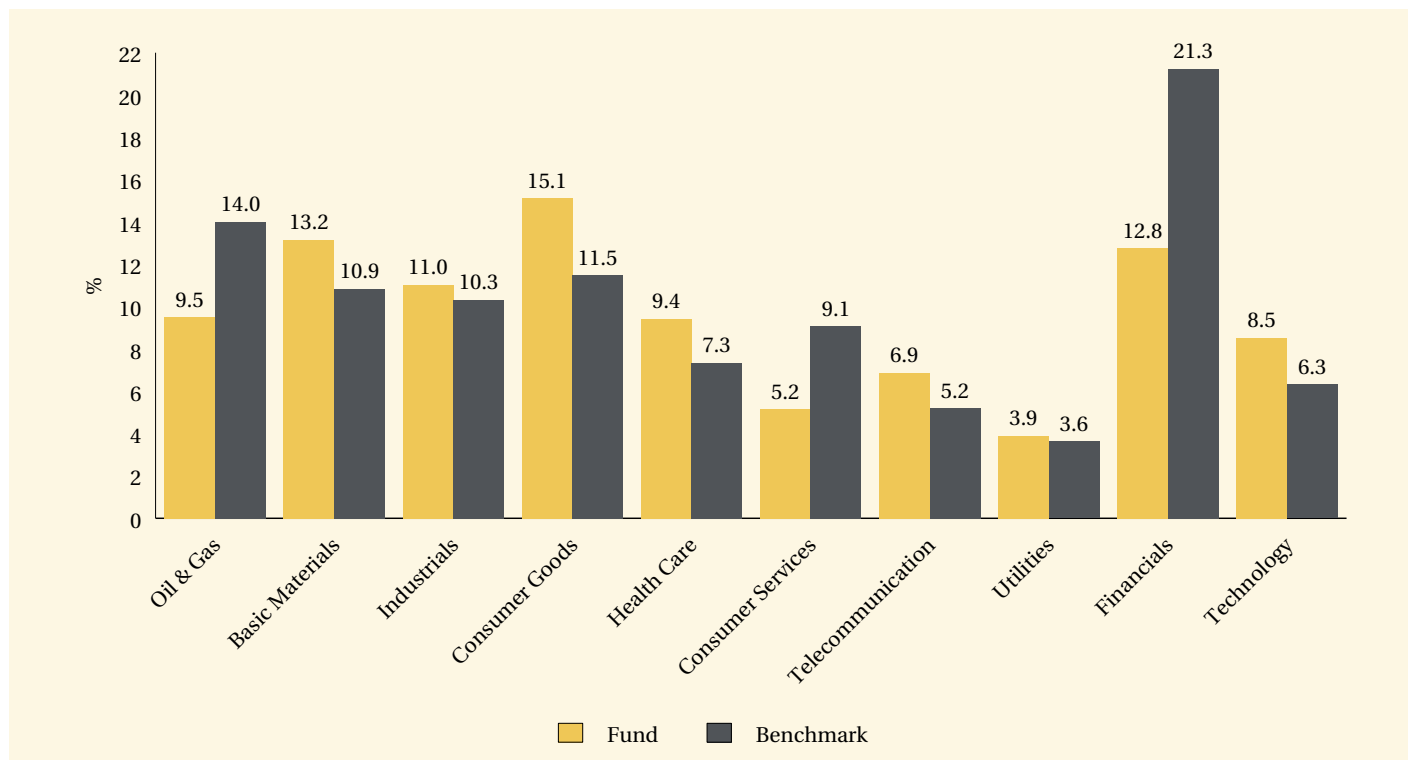
Strategy groups	Representatives from the strategy team, fund managers and research analysts identify global themes and formulate our economic view.
Research team	Global sector analysts, supported by fund managers, identify investment opportunities within the thematic backdrop.
Fund management	Fund managers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

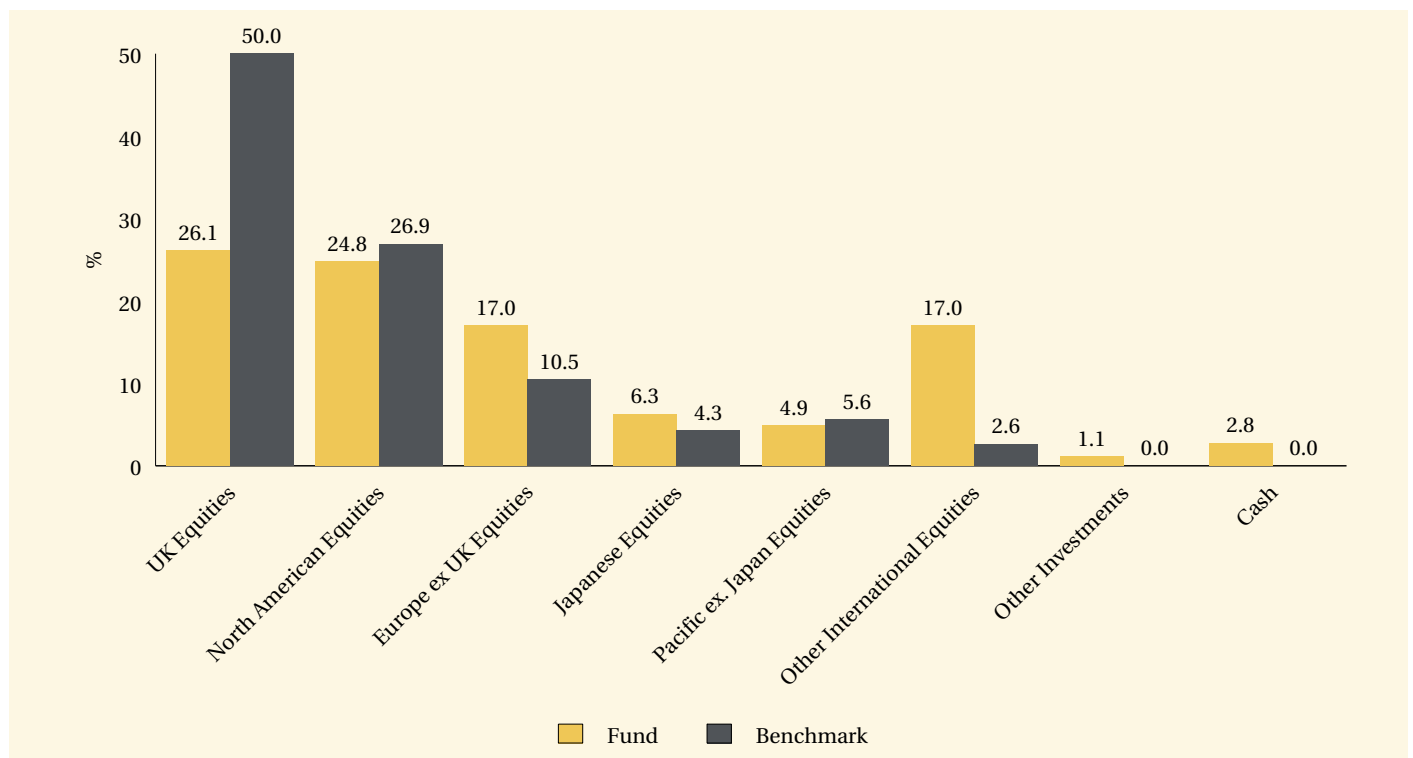
Theme	Factors	Investments
All change	The popping of the credit bubble has marked an end to the era of rapid growth in private sector debt in the developed world. Structurally impaired financial systems and impending regulatory burdens ensure that credit will be less freely available, and this has profound implications for consumer-driven economies, all asset classes and investment strategies.	Altria, British American Tobacco, China Mobile, Flir Systems, GlaxoSmithkline, Intel, Nestle, Novartis, 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, Gafisa, 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, 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 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 March 2011.

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 Falcon 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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