

Newton Real Return Fund

Investment Report - Second Quarter 2011

▶ A BNY MELLON COMPANYSM

NEWTON
The Power of Ideas



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Fund information

Long-term track record

The Newton Real Return Fund has returned 109.5% since relaunch (31 March 2004), which is equivalent to 10.7% 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 4,013	Ex dividend dates:	01 Jan, 01 Jul
Annual management charge:	1.0%	Pay dates:	28 Feb, 30 Sep
Total expense ratio:	1.11%	Last distribution:	3.5453p per unit
Base currency:	GBP	ISIN	GB0006780323
Dividend yield:	3.4%	Sedol	0678032

Focus on the latest quarter

Performance over three months

Newton Real Return	0.6%		
1 month £ Libor +4% p.a.	1.1%	ARC £ Steady Growth (est)	0.4%
		IMA Absolute Return	0.1%

Source: Lipper, Bloomberg & ARC, as at 30 June 2011. Calculation basis: Sterling, total return, bid to bid, without initial charges, net income reinvested, net of management fees.

Significant transactions

Acquisitions
UK Treasury Bill-0% 21/11/2011
BP PLC
Annaly Capital Management Inc.
Sanofi-Aventis S.A.
BB Biotech AG

Disposals
Vodafone Group PLC
TeliaSonera AB
Nomura Holdings Inc.
Scottish & Southern Energy PLC
ETFS Agriculture DJ-AIGSM-0% (USD)

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

Fund manager report

The Fund navigated turbulent market conditions successfully, to deliver a positive absolute return over the review period. Equities contributed the lion's share of return, with pharmaceutical holdings Roche, Novartis and GlaxoSmithKline making notable contributions. An announcement by Pfizer that it plans to embrace cost-cutting actively caused investors to re-evaluate the sector, and to take some encouragement from a signal that large-capitalisation pharmaceutical companies may, at last, start to pay attention to share-holder returns. Exposure to commodities had a mixed effect: the spot price of gold continued to rise, which was beneficial for the Fund's physical gold holdings. Crop prices, however, eased considerably from their former high levels, which had a negative impact upon the Fund's exposure to agricultural commodities. Gold stocks were the primary

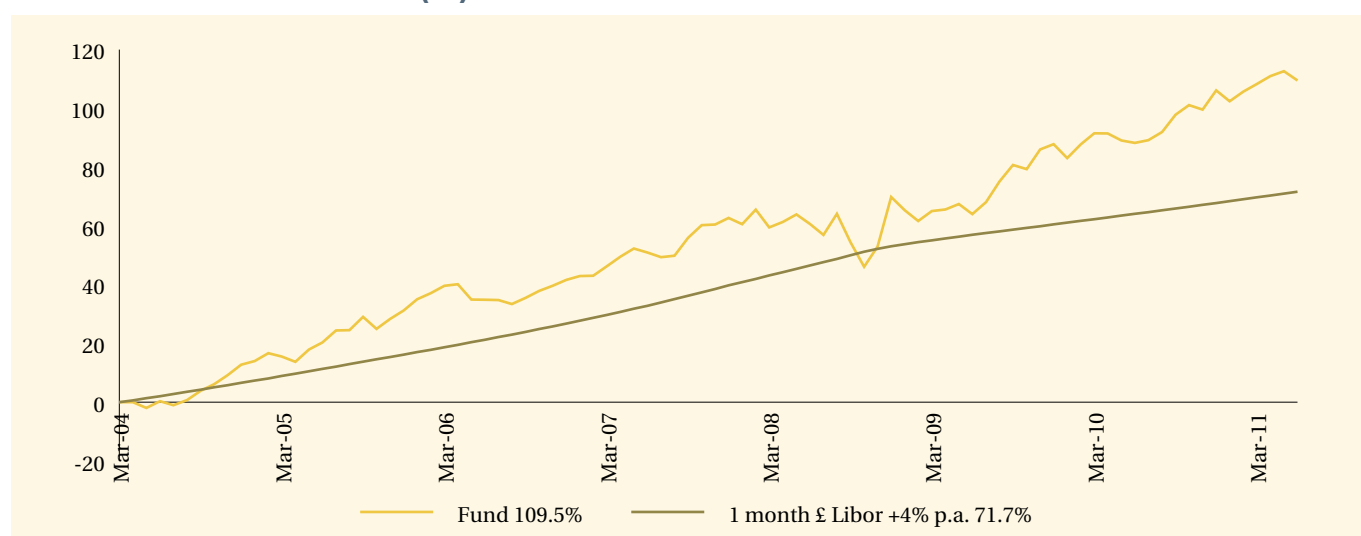
disappointment as, despite the rising price of the underlying commodity, the link between share-holder returns and spot prices is unclear, and has not been viewed favourably by the market. Fixed interest holdings generated positive returns across the board; the most notable were holdings in Norwegian government bonds, on account of an appreciation of the Norwegian krone and falling yields. Currency, with the exception of the Norwegian krone, provided a small tailwind. Mobile telecommunications holdings Sprint Nextel and Millicom were other notable contributors.

Increased market volatility over the quarter prompted us to use some innovative protection strategies within the Fund. We took advantage of technical differences between the US and UK markets to sell call options on the US market, in

order to fund cheaper put option protection on the UK market. We used forward currency agreements to hedge the Fund's currency position further back to sterling, as we wish maintain a flexible outlook regarding the major currencies. We prefer instead to buy put options on the Australian dollar and euro, providing asymmetric exposure to two currencies which could weaken significantly if certain negative outcomes materialise. We took advantage of market weakness to add to equity positions in stocks we like such as Inpex, GlaxoSmithKline and Centrica. We reduced the Fund's exposure to physical gold, as we are wary of the recent rise in the price of gold; we reinvested the proceeds into gold mining stocks which have failed to reflect much of the increase in the underlying commodity price. An interesting new purchase was Annaly Capital Management, the US agency real estate investment trust; we anticipate that investors should appreciate the company's significant income generation, amid a more volatile and lower growth environment. The Fund was a net seller of credit over the quarter; however, we added a couple of interesting new issues, including one by Jaguar Land Rover, which offers an attractive yield in a company, with strong fundamentals.

Long-term performance

Performance since launch (%)



	2002	2003	2004	2005	2006	2007	2008	2009	2010	YTD 2011
Fund	-	-	-	16.4	8.0	14.9	4.4	10.6	9.7	1.6
1 month £ Libor +4% p.a.	-	-	-	9.0	9.1	10.3	9.5	4.9	4.5	2.3

Discrete past performance (%)

From	30/06/06	30/06/07	30/06/08	30/06/09	30/06/10
To	30/06/07	30/06/08	30/06/09	30/06/10	30/06/11
Fund	11.9	6.5	2.1	14.8	11.3

Source: Lipper, Bloomberg & Datastream, as at 30 June 2011. Calculation basis: Sterling, total return, bid to bid, without initial charges, net income reinvested, net of management fees.

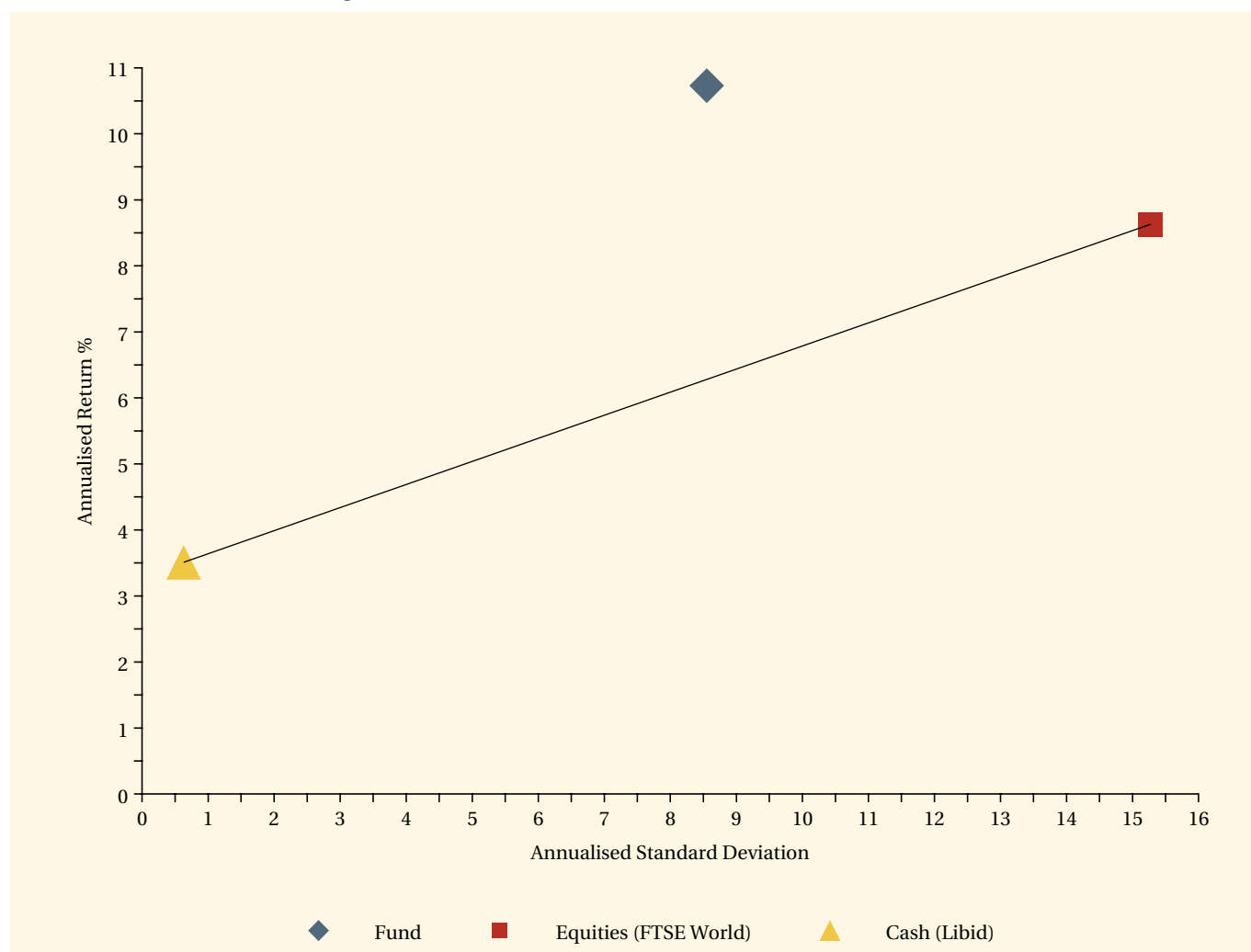
Risk factors

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	10.7%	8.6%	0.8
1 month £ Libor +4% p.a.	7.7%		

Source: Lipper, Bloomberg & Datastream, as at 30 June 2011. 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 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.	Statoil, GlaxoSmithKline, Roche, Vodafone, Novartis, Reynolds American, British American Tobacco, Scottish & Southern Energy
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, China Mobile
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
Medical Technology	Increasingly ageing, affluent and active populations demand products and services that enhance and maintain lifestyles in addition to treating more serious medical conditions. New technologies, materials and services are continually improving the performance of existing products and procedures. Developing world demand for healthcare is rising and, in Western healthcare systems, a key challenge is to improve the efficiency of delivery by adding technology to currently archaic networks.	Medtronic, Smith & Nephew, Fresenius, GlaxoSmithKline

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.

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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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