

Newton Falcon Fund

Investment Report - Third 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 121.8% since launch (13 November 1998), which is equivalent to 6.4% 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 121	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:	0.0572p 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	-11.0%				
Benchmark	-14.2%	ARC £ Equity Risk (est)	-11.8%	IMA Global Growth	-14.1%
FTSE All Share	-13.5%	FTSE World ex UK	-14.9%		

Source: Lipper, Datastream & ARC, as at 30 September 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	%
China Mobile (Hong Kong) Ltd	0.55
Japan Tobacco Inc	0.51
Rio Tinto PLC (not held)	0.45
Dollar General Corp	0.35
Altria Group Inc	0.32

Negative	%
Pandora A/S	-0.85
Sprint Nextel Corp	-0.63
Bayer AG	-0.41
Vodafone Group PLC (not held)	-0.40
Petroleo Brasileiro SA	-0.31

Significant transactions

Acquisitions
Japan Tobacco Inc.
Medco Health Solutions Inc.
Anheuser-Busch InBev
ABB Ltd
Total S.A.

Disposals
Charter International PLC
Lukoil Holdings
Source Physical Mkts Secured Gold
Canon Inc.
Mitsubishi Corp.

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

Fund manager report

During an unruly third quarter, stock markets lost ground amid pronounced volatility in share prices; indeed, during the normally quiet month of August, combined trading volumes in equities and derivatives reached record levels. Meanwhile, the prices of assets perceived to offer refuge, such as higher-quality government bonds, increased sharply. The price of gold rose by 7% over the quarter, despite a substantial decline in September, and the cost of gold's storage escalated after a surge in demand left London, the centre of the bullion market, short of vault space. In currency markets, the Swiss franc appreciated dramatically against the dollar and the euro, before intervention by the Swiss National Bank effectively pegged it to the latter and undermined its allure. Explanations for the chaos in financial markets include the increasing jeopardy of the European debt crisis, the

political gridlock in negotiations over the raising of the US federal government's debt ceiling, credit-rating agency Standard & Poor's subsequent downgrading of US debt, and mounting evidence of a slowdown in the recovery of the global economy which, according to the International Monetary Fund, is entering a "dangerous phase".

Against this background the Fund lost 11%, compared to a benchmark return of -14.2%. A number of aspects of portfolio positioning worked well, at least in relative terms: relatively resilient performance from our holdings in some of the worst hit sectors (financials, basic materials, and industrials), significant investment in sectors that themselves were relatively resilient (healthcare and tobacco, for example), an above average cash balance, and the impact from some hedging of

currency exposures (Brazilian Real and Euro hedged into Sterling). What let the Fund down, in the main, were some significant disappointments from particular holdings, for reasons that were more company-specific. The most damaging of these was Pandora, the Danish jewellery brand. In an effort to preserve margins in response to significantly increased input costs, the company priced its products too high for its target audience, and the sales outlook deteriorated rapidly. With our confidence in the business severely damaged, and very little visibility of how much excess inventory has been sold into the distribution channel, we decided to sell the shares. Bayer, on the other hand, is a stock that had a disappointing quarter, but in which we remain confident. The company's shares suffered after a setback in the process for regulatory approval of its key pipeline drug Xeralto. In our opinion, this left the shares very undervalued, and we took the opportunity to increase the holding. Bayer's consumer health and agricultural chemical businesses are attractive, and we believe that there will still be a market for Xeralto.

During the quarter we purchased new holdings in two consumer goods companies, Japan Tobacco (JT) and Anheuser-Busch Inbev, a brewing company, both of which we believe will lend stability to the Fund. In the case of JT, in addition to its fundamental attractions, we can see concrete reasons for the shares to close the valuation gap with comparable tobacco companies. The Japanese government plans to sell some or all of its 50% stake in the company in order to free up cash to spend on areas damaged by the earthquake and tidal wave. JT management are making the right noises about using their conservative balance sheet to buy the government's stake and reduce the share count, increasing the dividend, and freeing itself from the requirement to buy expensive domestic tobacco leaf.

We also made an investment in Total, the French oil company, which the Fund had last owned in early 2010. The performance of the shares has been especially poor, reaching a lower price even than in 2008. The company has a substantial investment programme to work through, but still offers an attractive dividend yield. We funded the investment by selling the Fund's holding of Lukoil, which had been comparatively resilient. With the lure of Total trading at such a depressed valuation, we decided there was no need to take the additional risks involved with investing in a Russian oil company, lowly-valued though it may be.

With more analysis coming to light of the scale of credit growth experienced in China since the financial crisis, no significant new quantitative

easing from the Federal Reserve, and increasing stress in the European banking system, we decided to sell the holding of Mitsubishi Corp, reducing further the Fund's investments in mining companies. We were not averse, however, to making a new investment in another cyclical business, ABB, which manufactures equipment and control systems for electricity transmission and distribution, and for industrial automation. Both divisions have good prospects, in our opinion, and following the steep falls in equity markets the valuation had become considerably more attractive.

In the health care sector, we purchased a holding of Medco Health Solutions, which manages the provision of pharmaceuticals for employee health benefit plans on behalf of plan sponsors in the US, and as such has an important role to play in reducing the cost of health care provision for employers, unions, and government agencies. The company is able to benefit in particular from the increasing use of generic drugs, supported by the wave of branded drug patents due to expire over the coming years. Concerns over the loss of two substantial client contracts, which we do not believe to be symptomatic of a broader trend, provided the opportunity to purchase the shares at a low valuation.

We sold the Gold ETF holding after a particularly sharp rise in the gold price during some of the worst equity market turmoil of the quarter. We still retain investments in gold mining companies Newcrest and Barrick, which had not participated to the same degree in the latest spike in the gold price. We also sold Charter International, the UK-listed engineering company, after a second bidder for the company emerged to counter the original offer from Melrose PLC.

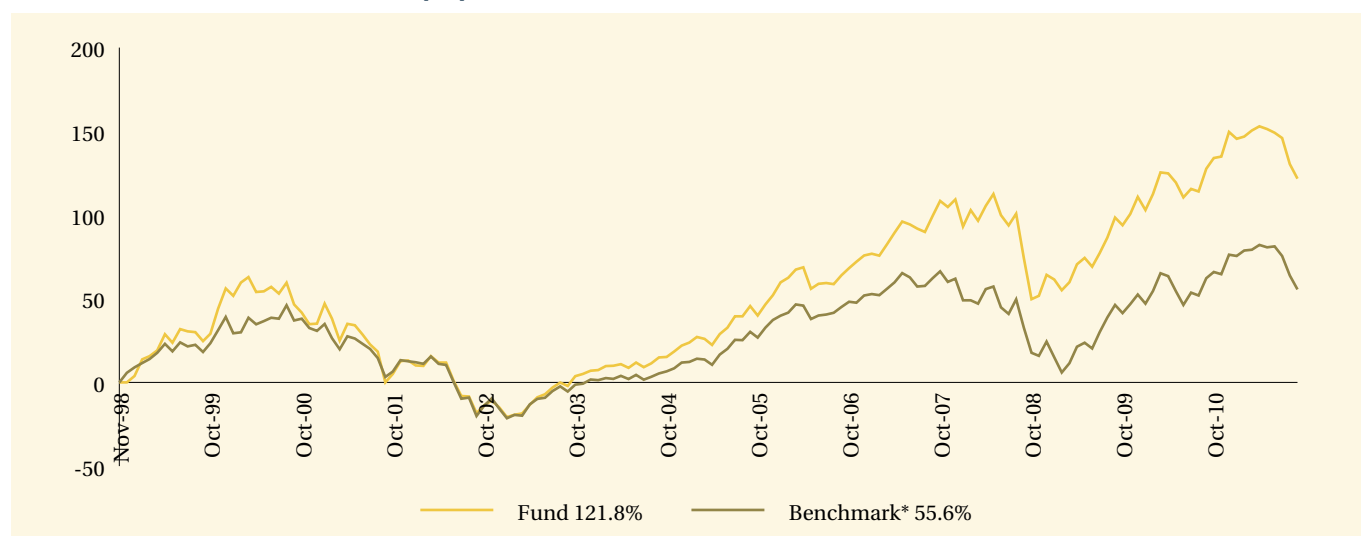
The world is experiencing some momentous changes. Among them are the transition from debt-fuelled growth in the western economies to an age of debt reduction and the 'realignment' of the world's economies. Given the array of political and economic conundrums, and the breadth of possible means by which authorities might seek to solve them, sustained volatility in financial markets seems almost inevitable. To the long-term investor who heeds these fundamental changes, short-term volatility should herald opportunities, as much as risks.

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	-11.2
Benchmark*	-25.2	20.8	9.9	22.8	10.6	6.6	-23.2	22.6	15.7	-11.8

Discrete past performance (%)

From	30/09/06	30/09/07	30/09/08	30/09/09	30/09/10
To	30/09/07	30/09/08	30/09/09	30/09/10	30/09/11
Fund	21.6	-12.6	13.9	14.7	-2.6

Source: Lipper, Datastream & Bloomberg, as at 30 September 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 has been 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 (£).

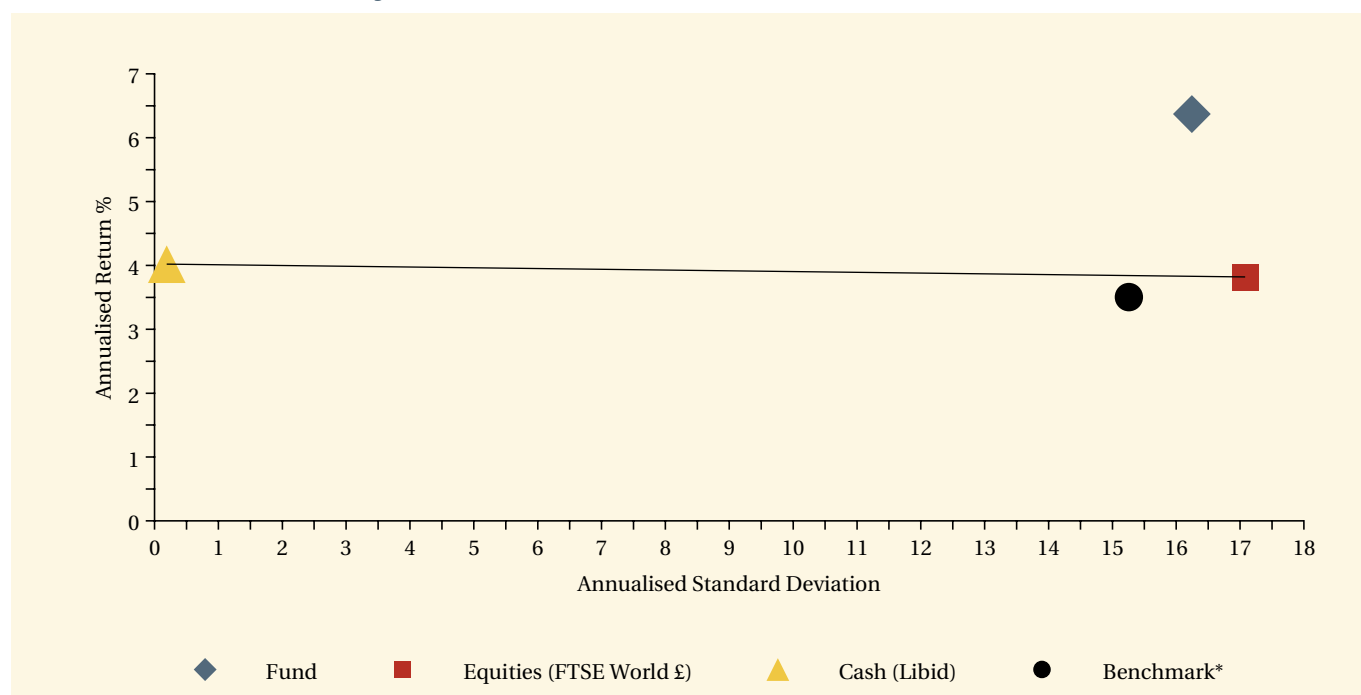
Risk factors

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	6.4%	16.2%	0.1
Benchmark*	3.5%	15.3%	0.0

Source: Lipper, Datastream & Bloomberg, as at 30 September 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 has been 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.

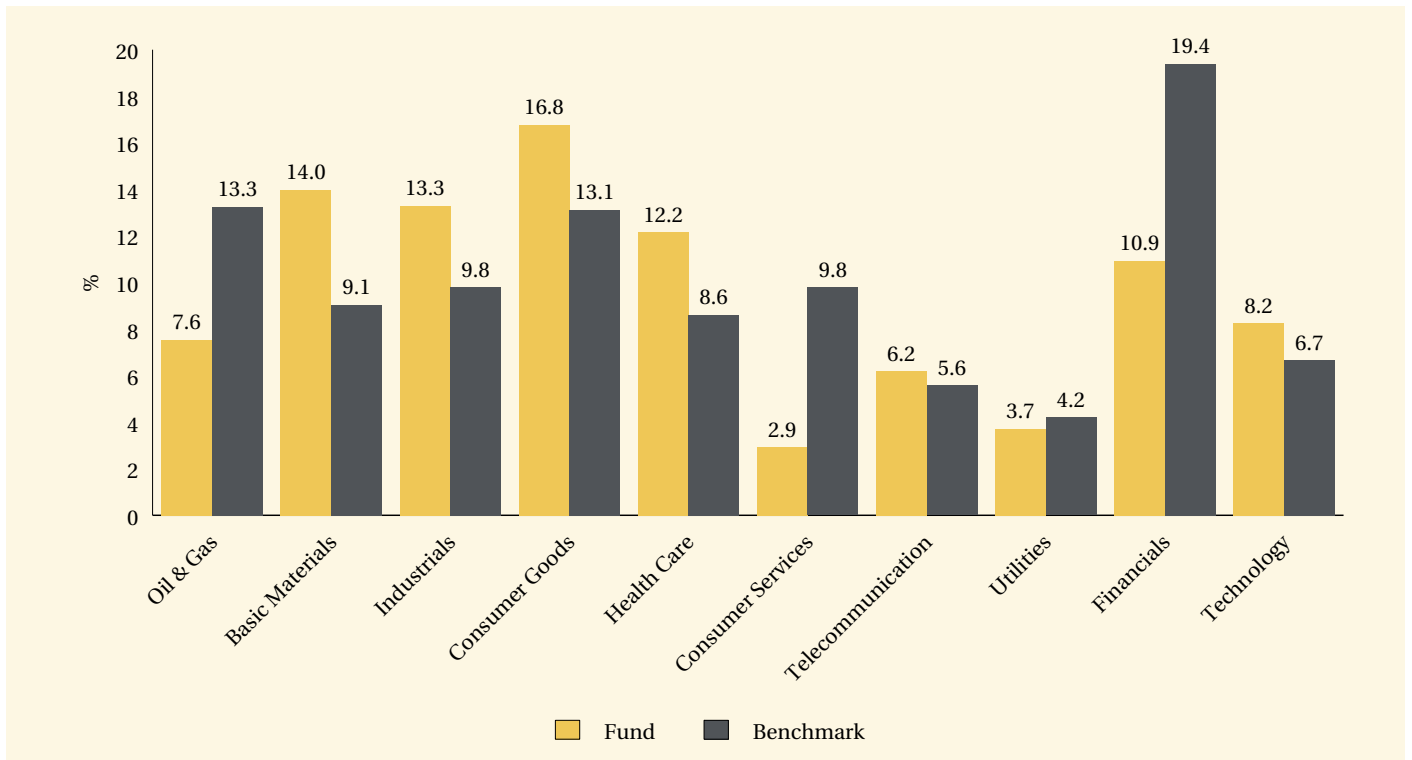
Strategy groups	Representatives from the strategy team, fund managers and research analysts identify global themes and formulate our economic view.
Research team	Global sector analysts, supported by fund managers, identify investment opportunities within the thematic backdrop.
Fund management	Fund managers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

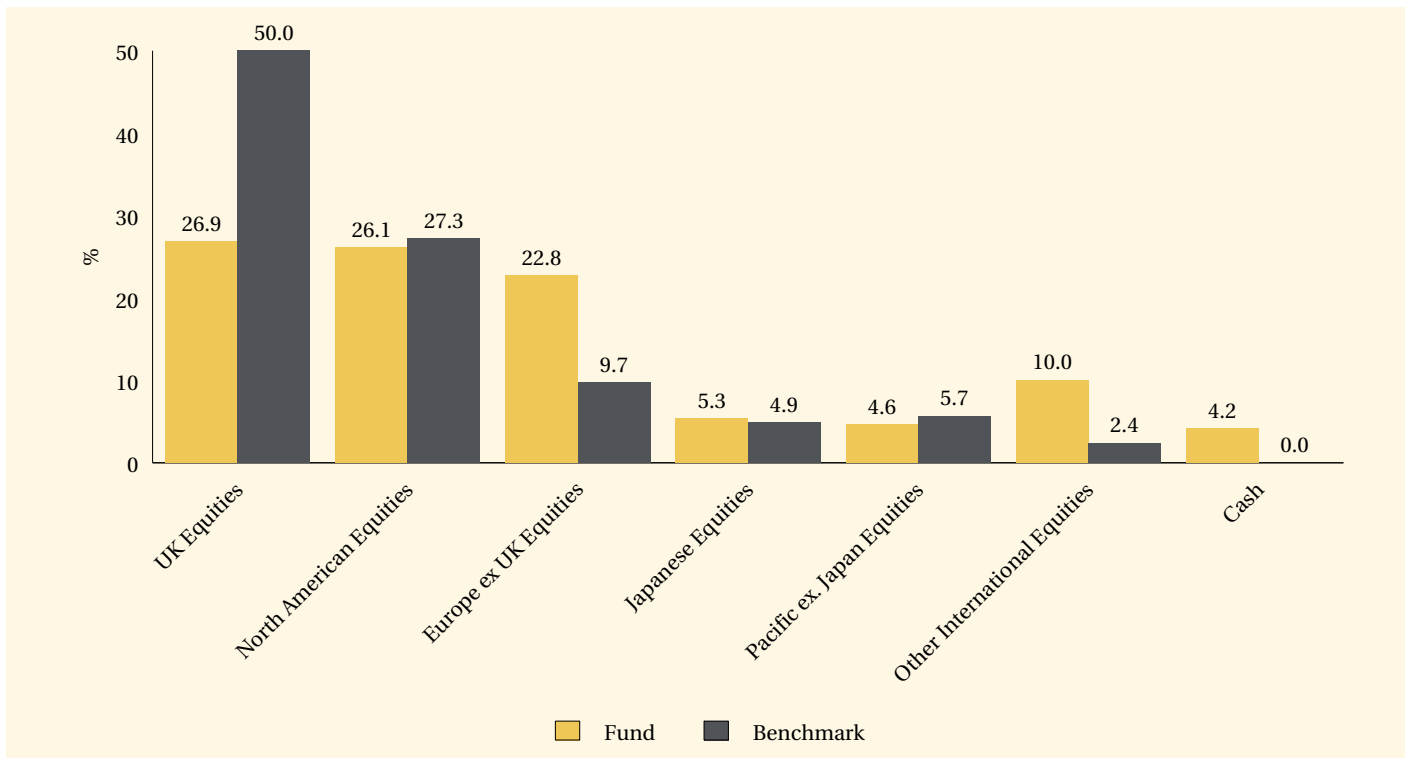
Theme	Factors	Investments
Deleverage	The credit bubble has left many economies carrying levels of debt which materially impair their economic prospects. We anticipate an extended period of relatively low growth and higher economic volatility as debt is reduced to more manageable levels. The scale of the accumulated public and private debt means that how the debt loads are reduced (whether in disorderly fashion or not) and the effect of offsetting policies will be critical for all aspects of the investment outlook.	Altria, British American Tobacco, GlaxoSmithKline, Nestle, Novartis, Microsoft, Japan Tobacco, limited exposure to western commercial banks
Global realignment	Western industrialised nations still dominate the world's economic output, wealth, consumption and market capitalisation in US dollar terms, as well as consuming the lion's share of natural resources. The generally stronger growth potential and increasing economic influence of the developing world are progressively challenging this position. The trajectory of this realignment is likely to be volatile and increasingly prone to cyclical divergence.	Bangkok Bank, ABB, China Mobile, Huabao, Gafisa, Inpex, Mosaic, MTN, Yingde Gases
Networked world	Networks are now ubiquitous, allowing information to flow between entities that may have previously been unconnected. The technologies being built into these networks are still developing at a rapid pace and the ecosystem of the web is unstable, offering unprecedented opportunities and risks for both web-based and traditional business models.	Accenture, HTC, MTN, Sprint Nextel, Ericsson
Healthy demand	This theme covers a number of aspects. Expanding incomes and changes in lifestyles in the developing world, combined with ageing populations and severe budgetary constraints in the mature economies, fuel strong demand for 'affordable' healthcare solutions. At the same time, increasing recognition of the role of diet in disease (particularly in an era of high food costs) points to potential changes in patterns of food consumption in the West and the adoption of Western-style diets globally.	Fresenius Medical Care, Medco Health Solutions, Novartis, Parexel

Fund analysis

Equity weightings by industry



Regional and asset class weightings



Source for all charts: Newton, as at 30 September 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.

Newton Falcon Fund

Newton Investment Management Limited

020 7163 9000
privateclients@newton.co.uk

London

BNY Mellon Centre
160 Queen Victoria Street
London EC4V 4LA

Edinburgh

2 Festival Square
Edinburgh EH3 9SU

Leeds

No.1 Whitehall Riverside
Leeds LS1 4BN

