

Newton Managed Income Fund

Investment Report - Third Quarter 2011

► A BNY MELLON COMPANYSM

NEWTON
The Power of Ideas



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Fund information

Long-term track record

The Newton Managed Income Fund has returned 23.7% since launch (19 March 2008), which is equivalent to 6.2% per annum. This is an outperformance of 4.3% 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 together with capital growth predominantly through investment in a portfolio of funds for which Newton Investment Management Limited is the investment adviser.

The Sub-Fund may also invest in deposits, fixed interest instruments and approved money market instruments.

Prior to 19 May 2011, the Fund was called the BNYM Newton Managed Income Fund.

Expected characteristics

Return: 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: High, and the dividend is likely to grow over the long term.

Performance references

The IMA Cautious Managed Sector (benchmark). ML Sterling Non-Gilt Index, FTSE All Share, FTSE World ex UK & FTA Govt All Stocks.

Fund facts

Fund size (millions):	GBP 26	Pay dates:	End Feb, May, Aug and Nov
Annual management charge:	1.0%	Last distribution:	0.0126p per unit
Base currency:	GBP	ISIN:	GB00B409TR45
Dividend yield:	4.7%	Sedol:	B409TR4

Focus on the latest quarter

Performance over three months

Newton Managed Income	-5.6%			
IMA Cautious Managed	-5.7%	ML £ Non-Gilt Index £	1.6%	
FTSE All Share	-13.5%	FTSE W World (ex UK)	-14.9%	FTA Govt All Stocks 8.3%

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

Please note: Performance before 25 May 2011 was calculated using the historic prices from the BNYM Newton Managed Income Fund S Net Acc share class.

Major contributors to relative performance

Significant transactions

Acquisitions
Newton Asian Inc Fund 'X'(Inc)
Newton I-L Gilt 'X' Net (Inc)
Newton Gbl High Yld 'X' (Inc)
Euro Stoxx 50 Index-Mar12 2100 (Call Option)

Disposals
Newton Income Fund 'X' (Inc)
Newton Gbl Dynamic Bd 'X'(Inc)
FTSE 100 Index-Dec 2011 Future
S&P 500 Index-Dec 2011 Future

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.

Europe's debt crisis was a particular focus of concern, with the eurozone's single currency appearing increasingly prone to amplify risks in the region rather than lessen them. As Greece careered ever nearer to a default on its debts, fears grew that Spain and Italy, whose borrowing costs were kept in check only by the bond-buying intervention of the European Central Bank, could be sucked into the vortex of the crisis.

Policymakers, particularly in Europe and the US, failed, however, to placate investors through their actions, which were seen widely as administering a series of 'sticking plasters' over certain features of crises, rather than as plausible and far-reaching solutions to the crises as a whole. In the US, the Federal Reserve announced that economic conditions were likely to warrant keeping interest rates "exceptionally low" until mid-2013.

Against such a backdrop, **equity-market** falls were widespread and hefty during the third quarter as demonstrated in the returns of the major FTSE regional indices. Continental Europe lost the most ground; its third-quarter loss of 24.3% in sterling terms brought its nine-month return to -17.4%. Emerging markets posted a collective return to the UK-based investor of -20.1% (for a nine-month

return of -21.3%), the Pacific Basin (excluding Japan) region made a sterling return of -18.0% (-17.5% over nine months), and the UK delivered a return of -13.5% (-10.9% over the first nine months of the year). North America returned -11.8% (-9.1%), and Japan, owing considerably to the strength of the yen, recorded a relatively composed -3.1% (-9.7% over the nine-month period).

The safest of **sovereign bond markets** were highly prized during the third quarter, although it is doubtful how apt the label 'safe' is when applied to the lending of funds to highly indebted governments at yields below rates of inflation. The FTA Government All Stocks Index returned +8.3%, to take its gains for the first nine months of the year to 10.1%, and the JP Morgan Global Government (excluding UK) Index returned +6.0% (+7.4% over nine months). In corporate bond markets, spreads (the difference between corporate debt yields and those available on government issues) widened amid growing risk aversion, such that corporate bonds were generally left trailing over the quarter. The BofA ML Sterling Non-Gilts Index returned +1.6% over the quarter, to record a nine-month return of +4.6%.

Against this background, the **Newton Managed Income Fund** returned -5.6% over the quarter, against -5.7% for the IMA Cautious Managed Sector.

At the start of the quarter the asset allocation split between bonds (and cash) and equities was 40%/60%. Over the third quarter the need for capital protection became increasingly important as concerns over the sustainability of the Euro and the risk of global recession rose. The weight in Index Linked bonds was increased from 4.9% as at the start of the quarter to 19.5% by the end. Over the same period the Newton UK Income Fund reduced from 11% weight to zero. By the end of the quarter, the bond (and cash) split relative to equities had changed to 54%/46%

The disappointing absolute performance of the Newton Managed Income Fund over the third quarter can be attributed to the low weight in UK government bonds. However looking ahead, the Newton Managed Income Fund will benefit from the reduction in its holding in the more volatile equities and the increase in index linked gilts, coupled with an attractive estimated yield of 4.7%.

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, and the shift from a planet

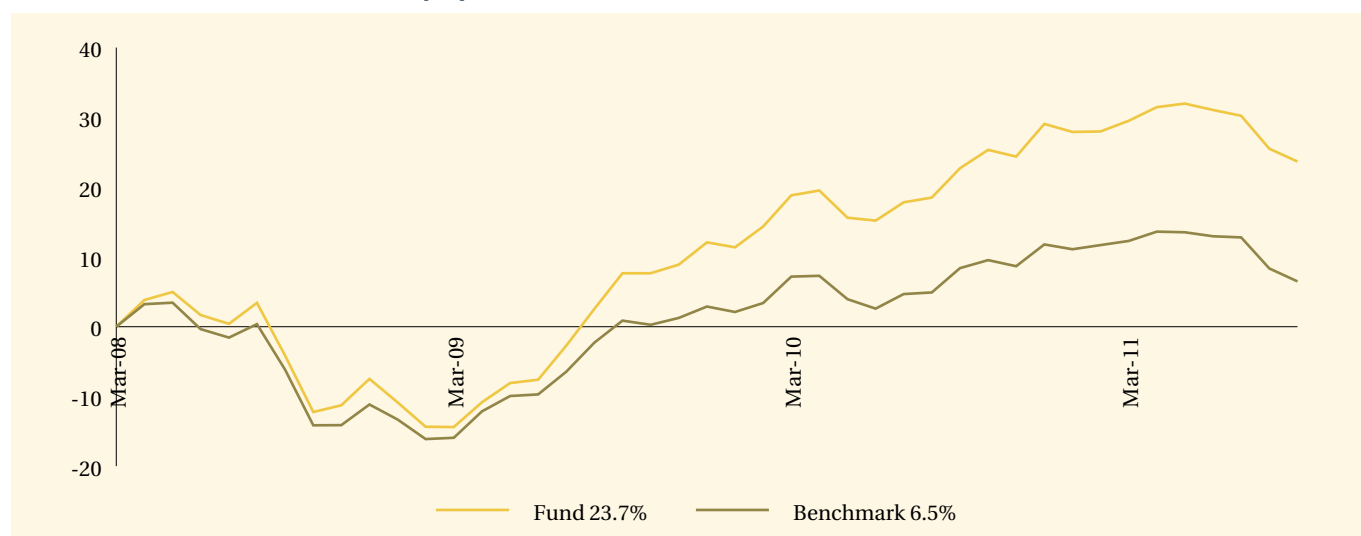
abundant in natural resources to one characterised by greater scarcity and a higher cost of energy. To the long-term investor who heeds these fundamental changes, short-term volatility should herald opportunities, as much as risks.

Fund manager:

Tim Wilson

Long-term performance

Performance since launch (%)



	2002	2003	2004	2005	2006	2007	2008	2009	2010	YTD 2011
Fund	-	-	-	-	-	-	-	21.2	15.2	-4.2
Benchmark	-	-	-	-	-	-	-	15.8	8.7	-4.7

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	-	-	12.2	14.0	0.8

Performance sourced from: Lipper, as at 30 September 2011. Calculation basis: Sterling, total return, bid to bid, without initial charges, net income reinvested, net of management fees.

Please note: Performance before 25 May 2011 was calculated using the historic prices from the BNYM Newton Managed Income Fund S Net Acc share class.

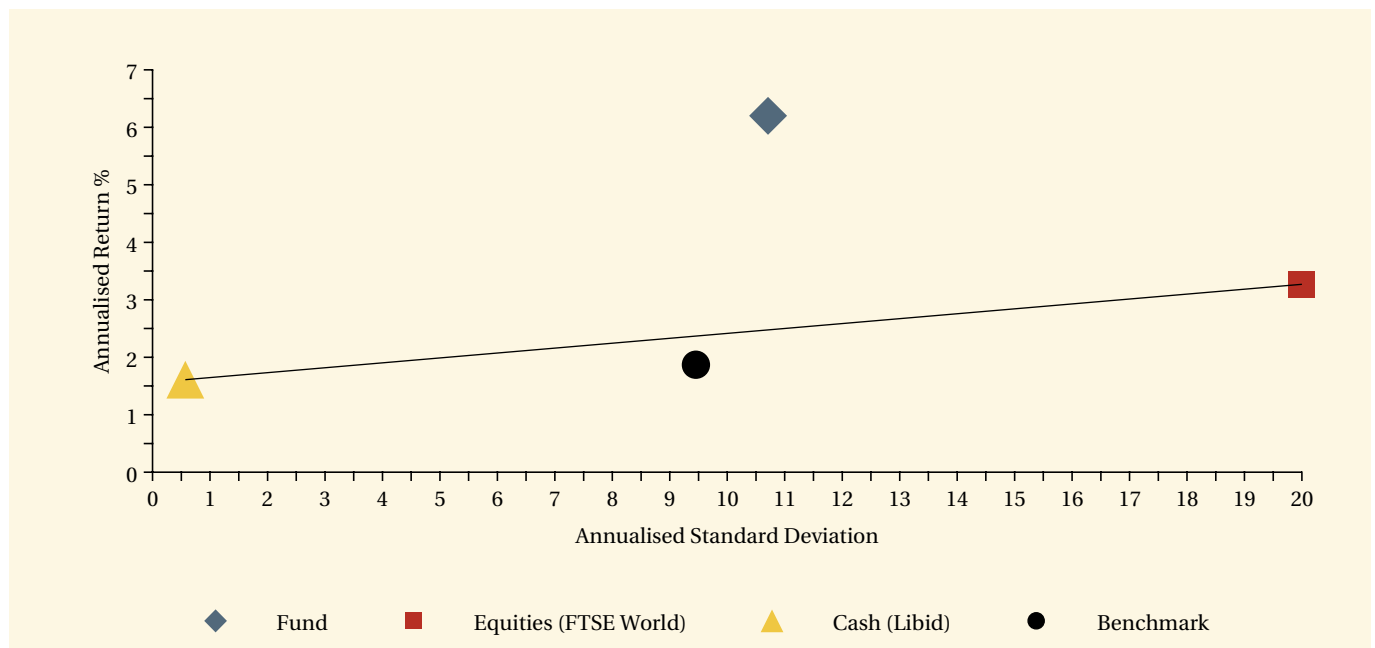
Risk factors

The performance data shown on this report is past performance; as such it is not a guide to future performance.

Investors should remember that this fund should be regarded as a long-term investment 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 Managed Income 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 19 March 2008.

Risk and return since launch

	Annualised Return	Volatility	Sharpe ratio
Fund	6.2%	10.7%	0.5
Benchmark	1.9%	9.5%	0.1

Performance sourced from: Lipper, as at 30 September 2011. 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.

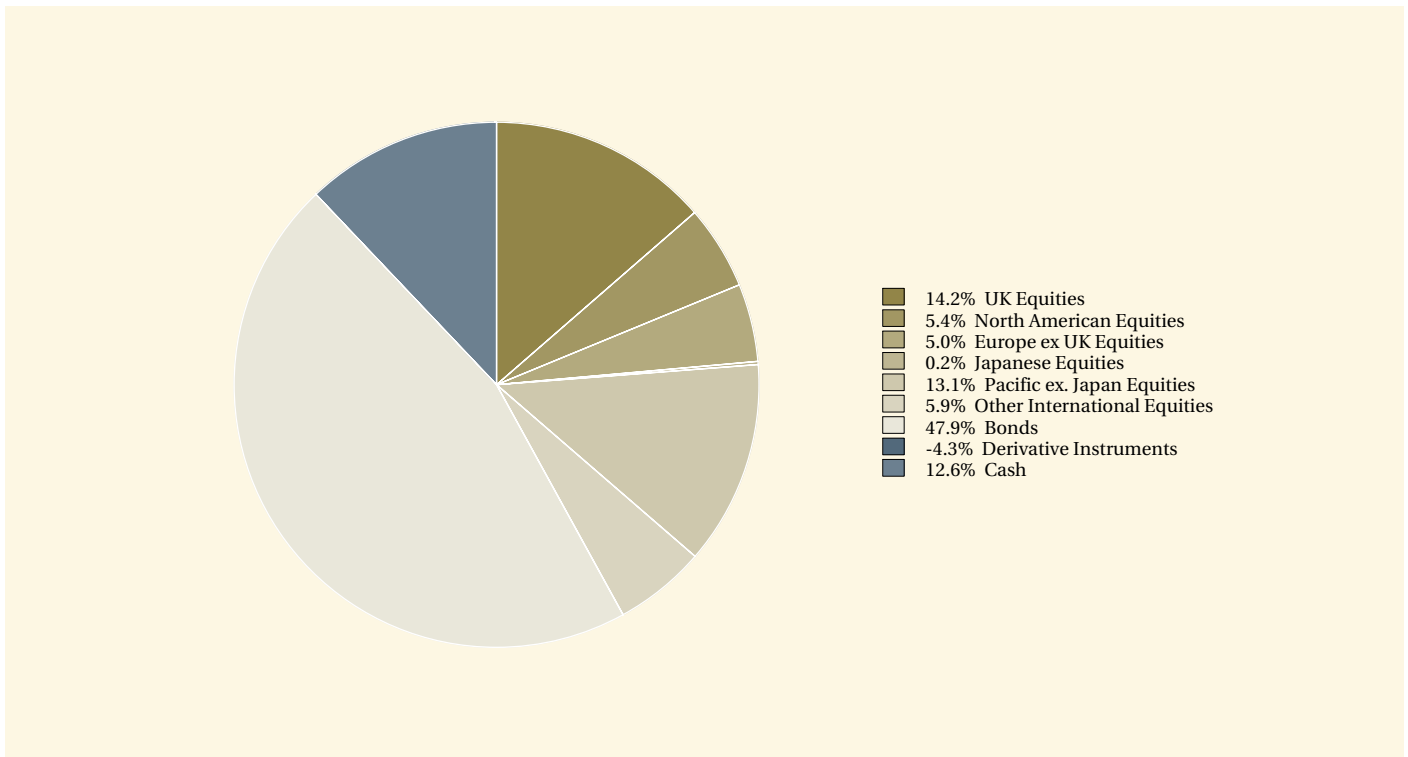
Strategy groups	Representatives from the strategy team, fund managers and research analysts identify global themes and formulate our economic view.
Research team	Global sector analysts, supported by fund managers, identify investment opportunities within the thematic backdrop.
Fund management	Fund managers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

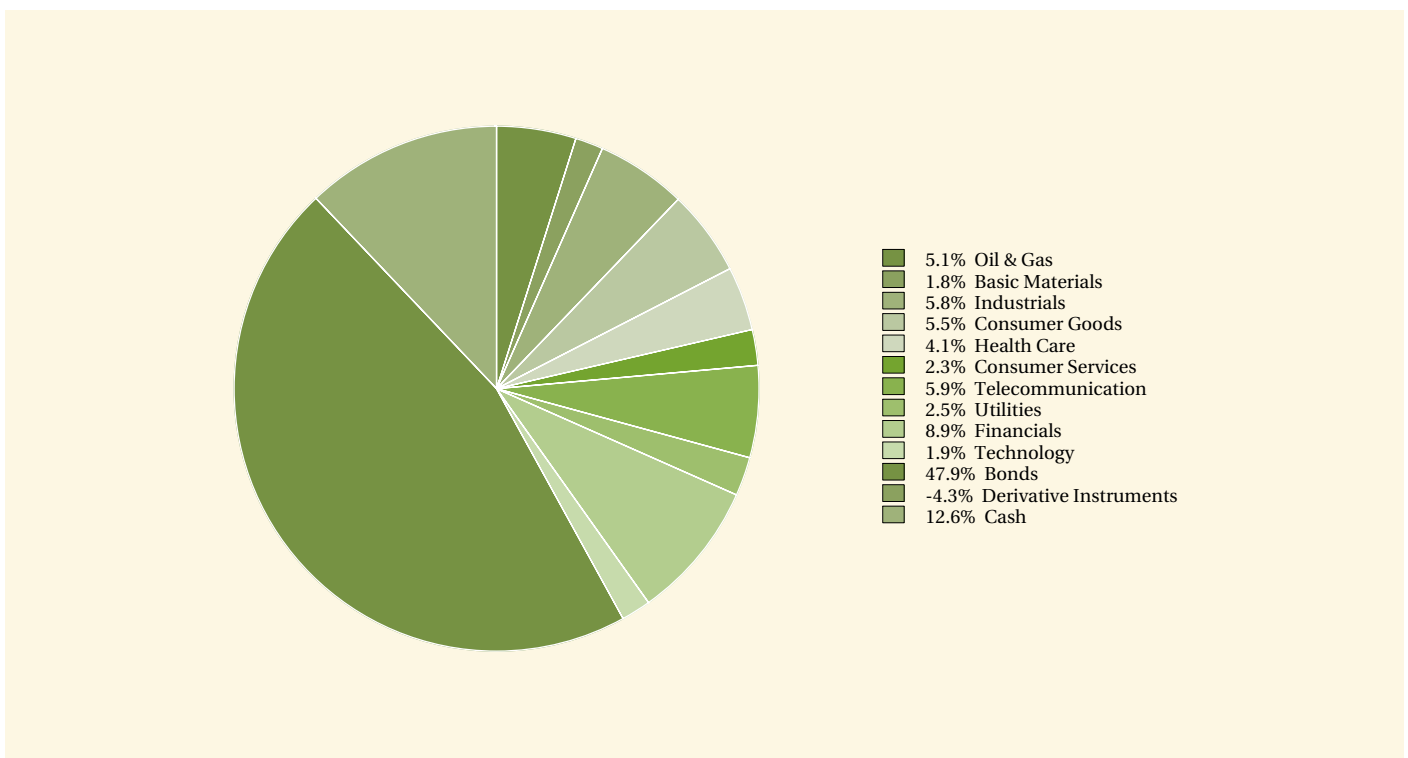
Theme	Factors	Investments
Deleverage	The credit bubble has left many economies carrying levels of debt which materially impair their economic prospects. We anticipate an extended period of relatively low growth and higher economic volatility as debt is reduced to more manageable levels. The scale of 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.	
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.	
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.	
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.	

Fund analysis

Asset class weightings



Currency exposure



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 Managed Income Fund is a sub fund of the BNY Mellon Managed Funds I, 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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