

Newton Phoenix 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 Phoenix Fund has returned 69.0% since relaunch (11 April 2003), which is equivalent to 6.4% per annum. This is an outperformance of 0.8% 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 long-term growth in excess of cash returns from a balanced portfolio diversified across a range of assets. The Fund is intended to have significantly lower absolute volatility than traditional equity biased funds, but will exhibit volatility relative to its benchmark.

Expected characteristics

Return: Above cash over the long term; variable in the short term.

Volatility of return: Medium. Investors can expect to experience fluctuations in the value of their holding, though to a lesser degree than is the case for equity markets.

Income: Low, but the dividend is likely to grow over the long term.

Performance references

1 month £ Libor +2% p.a. (benchmark).

Risk profile

Suitable for investors with a medium risk profile.

Fund facts

Fund size (millions):	GBP 32	Ex dividend dates:	01 Feb, 01 Aug
Annual management charge:	0.8%	Pay dates:	20 Mar, 21 Sep
Total expense ratio:	0.97%	Last distribution:	1.4804p per unit
Base currency:	GBP	ISIN:	GB00B0Z86D35
Dividend yield:	1.9%	Sedol:	B0Z86D3

Focus on the latest quarter

Performance over three months

Newton Phoenix Fund	-5.5%				
1 month £ Libor +2% p.a.	0.7%	ARC Balanced Asset (est)	-5.6%	IMA Cautious Managed	-5.7%
FTSE W World	-14.7%	ML £ Non-Gilt Index £	1.6%	FTSE All Share	-13.5%

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

Significant transactions

Acquisitions
FTSE 100 Index Sep11 5400 (Put Option)
HSBC Bank 0% FTSE/S&P Autocall 04/09/17
DnB NOR ASA
Prudential PLC
HTC Corp.

Disposals
Nationwide B/Soc. 5.625% 09/09/2019
Lloyds TSB Bank PLC 6.5% Bds 17/9/2040
Standard Chartered PLC
Advanced Info Service PCL
Filtrona PLC

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

Fund manager report

In the third quarter, the fund fell by 5.5% amidst considerable market turmoil (the FTSE All Share fell by 13.5%). This fall turned the small profit for the first half of the year into a loss of 3.5% by the end of September. Any fall in value is disappointing for a fund that attempts to beat cash, albeit that the fall was considerably less than the fall in shares.

During an unruly third quarter, stock markets lost ground amid pronounced volatility in share prices. 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 sharp decline in September. 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.

The explanations for disorder on England's high streets in August have been varied and inconclusive, but those for the summer's pandemonium in financial markets seem clearer: the increasing jeopardy of the European debt crisis, the political gridlock in negotiations over the raising of the 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".

UK government bonds (gilts) enjoyed another strong quarter despite our misgivings about the value to be gained from lending money to the UK government at rates below inflation (CPI) in many cases. Longer dated gilts performed particularly

well. Our small weighting in a range of gilts acted as a 'safety asset', protecting some of the fund's value when equities fell. High grade corporate bonds were also strong although financial bonds weakened as peripheral European worries resurfaced. In contrast, high yield bonds weakened in line with equity markets. We made a number of changes to our bond holdings, principally reducing exposure to bonds issued by financial companies in August and mid September.

Shares were volatile, with European, Asian and emerging market equities the weakest and Japan the least weak. Financials, industrials and basic materials were the weakest sectors while telecoms fell the least. While sector performance was in our favour, almost all the equities fell during the quarter. We have previously described our approach as a split between higher yielding western shares with strong balance sheets and a sprinkling of more exciting emerging market shares. In this quarter, we adjusted the split away from emerging markets driven by the weakening economic outlook. Sales included Filtrona, AIS, Hypermarcas, Standard Chartered and Anhanguera while we purchased HTC, DNB Nor, BG and Parexel.

Commodities were weak - particularly industrial metals, while precious metals were strong. We sold some of our exposure to agricultural commodities and trimmed our gold.

Property, private equity and hedge funds each fell, with private equity and property falling the most. We have long been averse to having much exposure to property and private equity (indeed we made further sales in non UK property), so the fund was not affected much by this. Within hedge funds, we sold FRM Credit Alpha and trimmed a number of more successful hedge funds. The Brevan Howard Macro fund performed very well, rising 13% over the quarter.

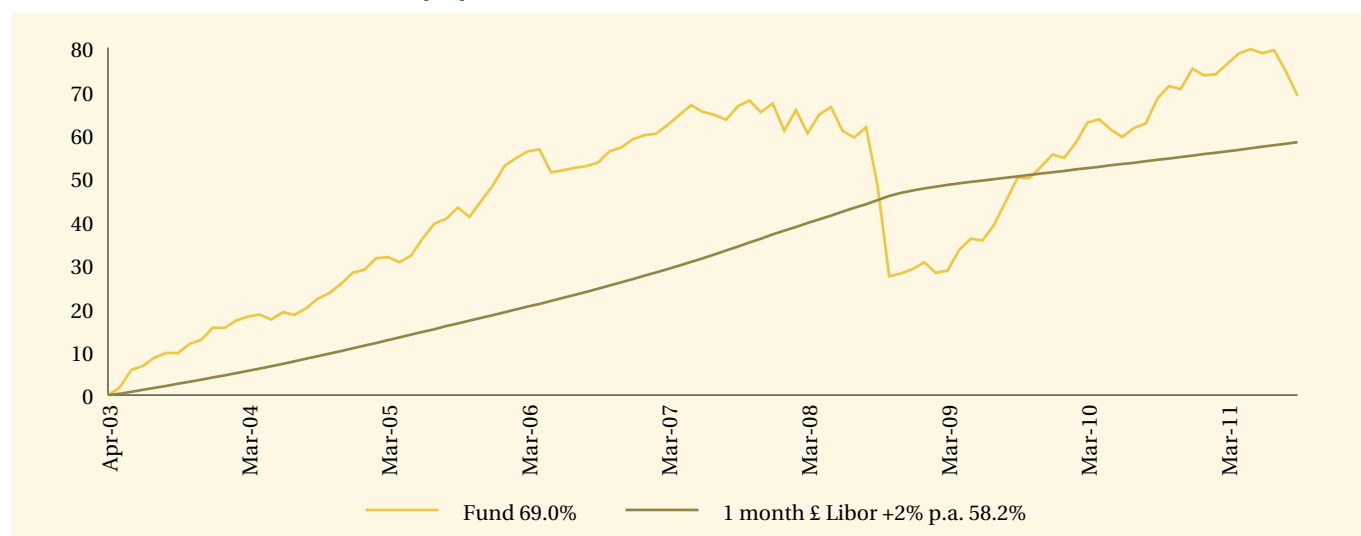
Looking forward, the backdrop remains challenging – the process of paying down debt is lengthy and likely to prompt volatility in asset prices, meanwhile economies remain soggy. Predicting the actions of politicians and central bankers is tricky at the best of times, but they may yet prompt a sizeable rally in risk assets. However, this is only one of a number of possible outcomes and further uncertainty seems the easiest prediction to make. The fund is positioned to keep volatility well below that of equity markets while participating in some of any positive performance.

Fund management team:

Philip Collins and Paul Flood

Long-term performance

Performance since launch (%)



	2002	2003	2004	2005	2006	2007	2008	2009	2010	YTD 2011
Fund	-	-	11.0	15.6	7.2	5.2	-22.8	20.5	12.7	-3.5
1 month £ Libor +2% p.a.	-	-	6.5	6.9	7.0	8.1	7.4	2.8	2.5	2.0

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	8.5	-11.0	1.3	12.1	0.4

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

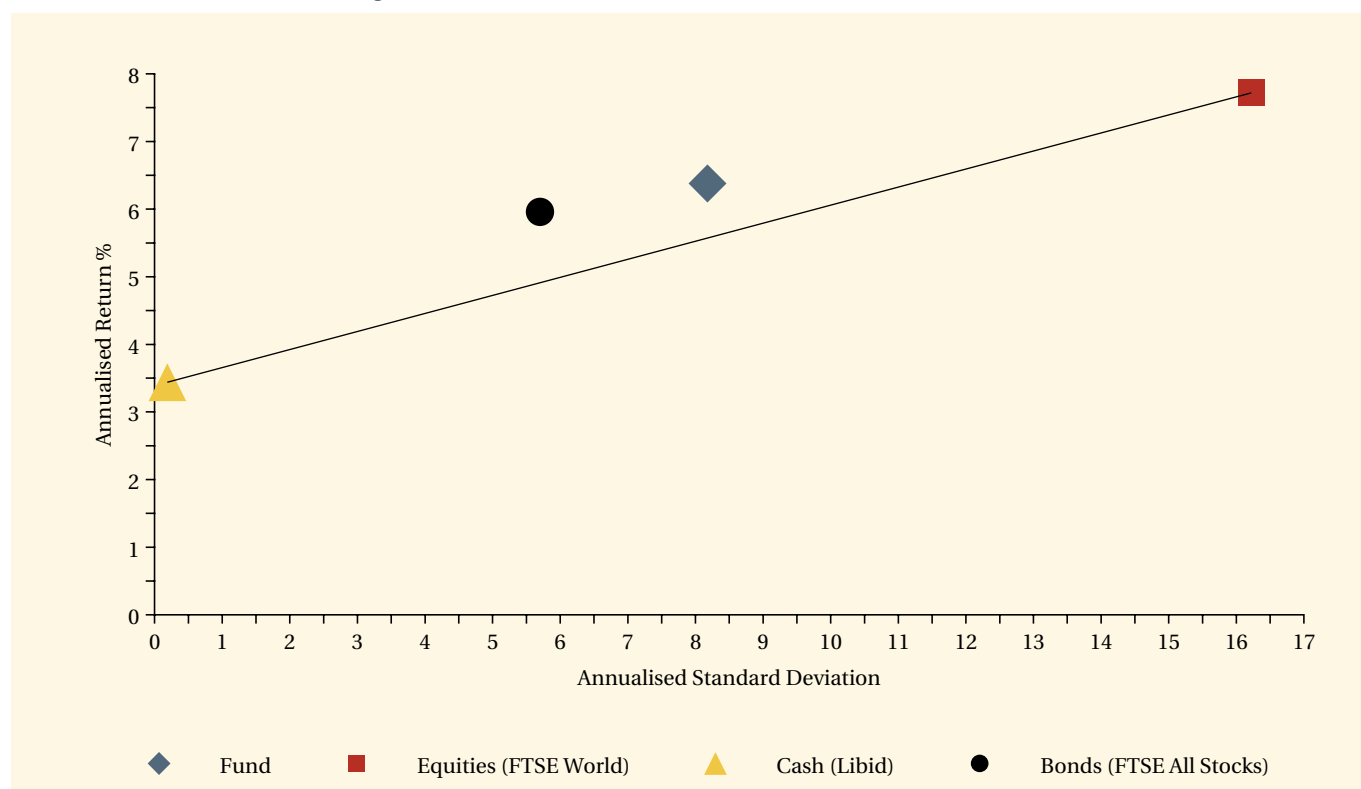
Risk factors

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 private equity, hedge funds and 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.

Long-term performance - risk and reward

Fund return and volatility since launch



This chart shows both return and volatility. The Newton Phoenix Fund has provided an annualised return of 6.4% since relaunch with lower volatility compared to equities. The relaunch date of the fund was 11 April 2003.

Risk and return since launch

	Annualised Return	Volatility	Sharpe ratio
Fund	6.4%	8.2%	0.4
1 month £ Libor +2% p.a.	5.6%		

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

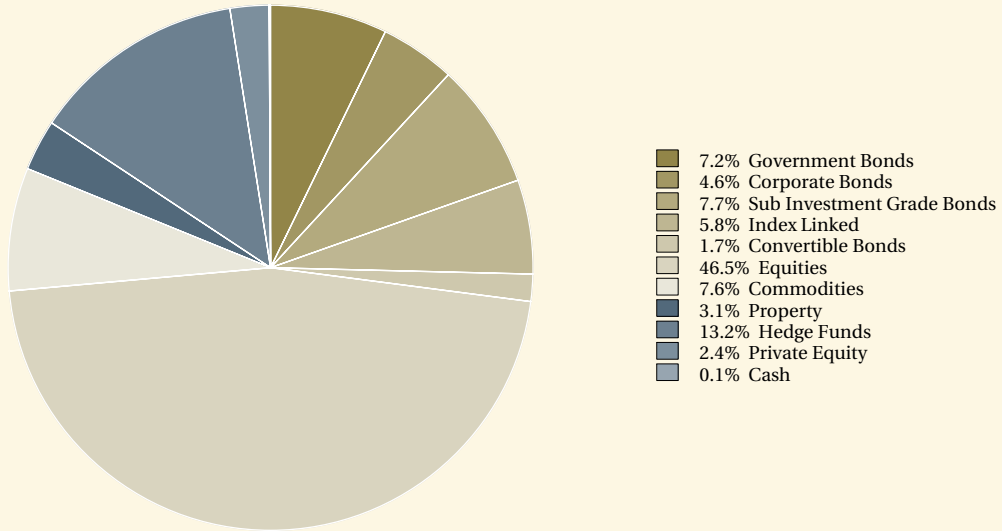
Strategy groups	Representatives from the strategy team, fund managers and research analysts identify global themes and formulate our economic view.
Research team	Global sector analysts, supported by fund managers, identify investment opportunities within the thematic backdrop.
Fund management	Fund managers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

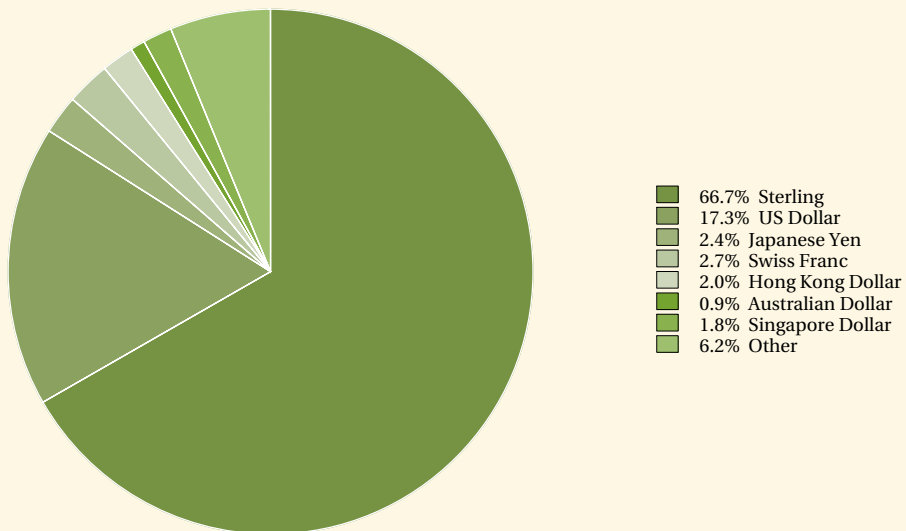
Theme	Factors	Investments
Deleverage	The credit bubble has left many economies carrying levels of debt which materially impair their economic prospects. We anticipate an extended period of relatively low growth and higher economic volatility as debt is reduced to more manageable levels. The scale of 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.	Barrick Gold, Gold ETF, Roche, John Laing Infrastructure
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.	Petrobras, Jain Irrigation, Yingde Gases, Bangkok Bank
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.	Ariba, Opera Software, Sprint Nextel, Apple
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.	GloxoSmithKline, Novartis, Bayer, Mosaic

Fund analysis

Asset class weightings



Currency exposure



Source for all charts: Newton, as at 30 September 2011.

Portfolio valuation

Newton Phoenix Fund	100.00
Government Bonds	7.21
UK Treasury Gilt 4.75% 07/12/2030 GBP0.01	2.01
UK Treasury Gilt 2.25% 07/03/2014 GBP0.01	1.12
UK Treasury Stock 5% 7/03/2025 GBP0.01	1.74
UK Treasury Stock 4.75% 7/03/2020 GBP0.01	2.34
Corporate Bonds	4.64
Co-Operative Bank PLC 5.75% Bds 2/12/2024 GBP1000	0.81
Imperial Tobacco Finance PLC 8.125% Notes 15/03/2024 GBP	0.66
Royal Bank of Scotland Grp PLC 7.5% Bds 29/4/2024 GBP	1.06
Standard Chartered Bank 8.103% Stp Perp 29/5/2049 GBP	0.73
Tesco Property Finance 3 PLC 5.744% Bds 13/04/2040 GBP	0.56
Unique Pub Finance Co PLC 5.659% Bds 30/06/2027GBP 'A4'	0.82
Sub Investment Grade Bonds	7.74
BNY MFM Ltd Newton Gbl High Yld 'X' (Acc)	0.59
Campofrio Food SA 8.25% Bds 31/10/2016 EUR RegS	0.52
CEDC Fin Corp Intl Inc 8.875% Bds 01/12/2016 EUR RegS	0.33
Conti-Gummi Finance BV 7.125% Bds 15/10/2018 EUR RegS	0.47
CRC Breeze Finance SA 5.29% Bds 8/05/2026 EUR50000	0.49
HeidelbergCement AG 7.5% Bds 03/04/2020 EUR1000	0.49
Ineos Finance PLC 9.25% Bds 15/05/2015 EUR RegS	0.53
NB Global Floating Rate Inc Fd Red Ptg Pref Shs GBP	0.97
Origin Energy Finance Limited 7.875% Bds 16/6/2071 EUR	0.30
Phoenix PIB Finance BV 9.625% Bds 15/7/2014 EUR RegS	0.49
Renhe Commercial Holdings 13% Bds 10/03/2016 USD RegS	0.45
Smurfit Kappa Acquisition 7.25% Bds 15/11/2017 EUR RegS	0.43
Stena AB 6.125% Bds 1/02/2017 EUR RegS	0.36
Tullett Prebon Group Holdings 7.04% Bds 06/07/2016 GBP1000	0.55
Unitymedia GmbH 8.125% Bds 1/12/2017 EUR RegS	0.42
Wind Acquisition Finance SA 11.75% Bds 15/07/2017 EUR RegS	0.34
Index Linked	5.79
Anglian Water Services Finance 4.125% I/L Nts 28/7/2020 GBP	1.14
National Grid Gas PLC 4.1875% Index-Linked 14/12/22	1.33
Tesco PLC 4% Idx Lkd Nts 8/09/2016 GBP	1.00
UK Treasury Gilt 1.25% Index-Linked 22/11/2017	1.29
USA Treasury Notes 1.875% TII 15/07/2013 USD100	1.03
Convertible Bonds	1.67

Portfolio valuation

Cable & Wireless PLC 5.75% Cnv Bds 24/11/2014 GBP	0.27
China Green (Holdings) Ltd 3% Cnv Bds 12/04/2013 CNY	0.39
Interpublic Group of Companies 4.25% Cnv Bds 15/3/2023 USD	0.39
Suzlon Energy Ltd 5% Cnv Bds 13/04/2016 USD	0.62
Equities	46.52
3I Infrastructure PLC	0.60
Accenture PLC	0.51
Align Technology Inc	0.60
Altria Group Inc	0.67
Annaly Capital Management Inc	0.55
Apple Inc	0.66
Ariba Inc	0.28
Associated British Foods PLC	0.41
Bangkok Bank PCL	0.49
Barclays Bank PLC 0% FTSE 100 6/10/2017 £ '1329'	0.74
Barrick Gold Corp	0.92
Bayer AG	0.79
BG Group PLC	0.65
BHP Billiton PLC	0.68
Biotech Growth Trust PLC	0.38
BP PLC	0.88
British American Tobacco PLC	0.93
Cable & Wireless Comms PLC	0.49
Centrica PLC	0.83
China Mobile (Hong Kong) Ltd	0.68
Cobham PLC	0.58
DNB Nor ASA	0.91
Don Quijote Co Ltd	0.43
eBay Inc	0.51
Elders (Merrill Lynch Intl) Japan Cap Protected III 17B	1.32
Elders (Merrill Lynch Intl) 9% High Yield Shs Cls 24A	0.58
Elders (Merrill Lynch Intl) Floating Rate Income Shs 24C	0.53
EMC Corp	0.29
Energy Development Corp	0.46
GlaxoSmithKline PLC	1.00
HeartWare International Inc	0.37
HICL Infrastructure Co Ltd	1.05
HSBC Bank PLC 0% FTSE/S&P Autocall 04/09/17	0.99
HTC Corporation	0.51
Huabao Intl Holdings Ltd	0.32

Portfolio valuation

ICAP PLC	0.57
INPEX Holdings Inc	0.60
Intl Public Partnership Ltd	0.99
Jain Irrigation Systems Ltd	0.38
Japan Tobacco Inc	0.90
Jardine Lloyd Thompson Group	0.48
John Laing Infrastructure Fund	1.03
L'Oreal SA	0.47
Larsen & Toubro Ltd	0.23
Man Wah Holdings Ltd	0.00
Mosaic Co	0.44
MTN Group Ltd	0.61
Natura Cosmeticos SA	0.22
Newcrest Mining Ltd	0.87
Nielsen Holdings N.V.	0.52
Noble Group Ltd	0.39
Novartis AG	0.98
Opera Software ASA	0.28
Parexel International Corp	0.46
Petroleo Brasileiro SA	0.66
Prudential PLC	0.60
Reynolds American Inc	0.54
Roche Hldgs AG	0.99
Royal Bank of Scotland Grp PLC FTSE GBP Inc Autocall Certs	1.03
Sanofi	0.53
Scottish & Southern Energy PLC	0.87
Serco Group PLC	0.51
Shenguan Holdings Group Ltd	0.26
Societe Generale Acceptance NV 0% UK RPI Lkd Nt 17/03/14 GBP	0.57
Societe Generale Acceptance NV 0% FTSE Auto-Call 22/03/17 GBP	0.98
Sprint Nextel Corp	0.59
Statoil ASA	0.52
Syngenta AG	0.60
Taiwan Semiconductor Manufact	0.49
Tele Norte Leste Participacoes	0.39
Telekomunikacja Polska SA	0.51
Toyota Motor Corp	0.47
UBS AG Jersey 0% FTSE & S&P Autocall 1/6/17	0.96
United Overseas Bank Ltd	0.47
Yamana Gold Inc	0.59

Portfolio valuation

Yingde Gases Group Company Ltd	0.34
Commodities	7.57
Barclays Bank PLC 0% Protect Agric 2 20/10/2014	1.71
ETFS Physical Gold 0% Secured Note (USD)	1.69
ETFS Physical Platinum 0% Secured Note (USD)	0.59
Source Physical Markets PLC Secured Gold Linked Note (USD)	3.59
Property	3.15
F&C Commercial Property Trust	0.44
Invista European Real Est Tst	0.44
Link Real Estate Inv Trust	0.24
Mapletree Logistics Trust	0.91
Powerlong Real Estate Holdings	0.13
UK Commercial Property Tst Ltd	0.99
Hedge Funds	13.22
BH Global Limited	2.98
BH Macro Ltd	2.09
Bluecrest Allblue Fund Ltd	2.41
CQS Diversified Fund Ltd	0.98
Dexion Alpha Strategies Ltd	0.01
Dexion Trading Ltd	2.48
NB Distressed Debt Inv Fd Ltd	1.11
Signet Gbl Fxd Inc Strategies	1.17
Private Equity	2.39
Ashmore Gbl Opportunities Ltd	1.47
Oakley Capital Investments Ltd	0.92
Cash	0.08

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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Newton Phoenix 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

