

Newton Managed Income Fund

Investment Report - Fourth 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 30.0% since launch (19 March 2008), which is equivalent to 7.2% per annum. This is an outperformance of 4.7% 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 Mixed 20-60% Shares Sector (benchmark). ML Sterling Non-Gilt Index, FTSE All Share, FTSE World ex UK & FTA Govt All Stocks.

Fund facts

Fund size (millions):	GBP 35	Pay dates:	End Feb, May, Aug and Nov
Annual management charge:	1.0%	Last distribution:	1.3938p per unit
Total expense ratio:	1.17%	ISIN:	GB00B409TR45
Base currency:	GBP	Sedol:	B409TR4
Dividend yield:	4.8%		

Focus on the latest quarter

Performance over three months

Newton Managed Income	5.1%				
IMA Mixed 20-60% Shs	2.8%	ARC Balanced Asset (est)	2.7%	ML £ Non-Gilt Index £	2.4%
FTSE All Share	8.4%	FTSE W World (ex UK)	7.5%	FTA Govt All Stocks	5.0%

Source: Lipper, as at 31 December 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 Higher Income 'X' (Inc)
Newton Gbl Higher Inc 'X'(Inc)
Newton I-L Gilt 'X' Net (Inc)

Disposals
Newton Asian Inc Fund 'X'(Inc)
FTSE 100 Index-Mar 2012 Future
S&P 500 Index-Mar 2012 Future

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

Fund manager report

In seeking to prevent a liquidity squeeze reminiscent of that which affected financial markets in the wake of Lehman Brothers' demise in 2008, the world's leading central banks continued to adopt an accommodative policy stance.

During a quarter of commotion, in which today's newspapers were fit not so much for tomorrow's fish and chip wrapping as for today's (such was the pace of events), it was remarkable that the major equity markets, with the exception of Japan, made gains. If insanity, as Einstein suggested, consists of "doing the same thing over and over again and expecting different results", perhaps investors were complicit in the lunacy of policymakers. Or perhaps they were reassured, given a spell of relatively upbeat data, that the US economy was in finer fettle than previously feared. Or maybe they

found solace in news that, while China's economic growth rate was slowing, its inflation rate was falling faster, thus paving the way for further policy stimulus.

North American equities blazed a trail during the final quarter of the year, with a return of +11.3% in sterling terms (for a 2011 return of +1.2%). The UK returned +8.4% (-3.5% over 12 months), the Asia Pacific ex Japan region returned +5.6% (-12.9% over 2011 as a whole), and emerging markets returned +4.7% (-17.6% over 12 months). Europe (excluding the UK) lagged somewhat with a (currency-stunted) return of +3.3% to the UK-based investor (-14.7% in 2011); and Japan, frequently a law unto itself in recent quarters, returned -3.6%, for a 12-month return of -12.9%.⁽¹⁾

In government bond markets, indices were modestly weaker in local-currency terms; the JPM Global Government Bond (excluding UK) Index was flat in sterling total-return terms over the quarter (+7.4% over 2011 as a whole). However, there was a delineation between markets supposed to be 'safe havens' and those perceived to be more risky. UK government bonds (gilts), for example, made notable headway, with the FTA Government All Stocks Index returning +5.0% over the fourth quarter for a 2011 return of +15.6%, but a number of eurozone government bond markets, notably Italy's, lost ground.

Corporate Bond markets, meanwhile, recorded respectable gains over the quarter, with the BofA ML Sterling Non-Gilts Index returning +2.4% for a 12-month return of +7.1%.

Against this background, the Newton Managed Income Fund returned +5.1% over the quarter, against +2.8% for the IMA Mixed 20-60% Shares Sector. Over the year as a whole the returns were +0.7% and -2.0% respectively.

At the start of the fourth quarter the asset allocation split between bonds (and cash) and equities was 54%/46% in favour of bonds. This cautious stance was maintained throughout the quarter, although towards the end of the quarter the fund was rebalanced towards equities in anticipation of progress towards more effective management of the Euro crisis. The weight in the Newton Global Dynamic Bond Fund was reduced from 12.3% at the start of the quarter to 9.4% by the end. The proceeds, together with a reduction in cash holdings were used to raise the weight of the Newton Higher Income Fund from 12.5% to 19.1%. By the end of the quarter, the bond (and cash) split relative to equities had changed to 46%/54%.

Within the Newton Managed Income Fund, the equity income funds performed well both in absolute terms and relative to their individual benchmarks. The Newton Higher Income Fund posted a rise of 8.6%, the Newton Global Higher Income Fund 7.6%, and the Newton Asian Income Fund 6.3%.⁽²⁾

Of the fixed interest investments, the Newton Global Dynamic Bond Fund gained 1.3% as corporate bonds benefited from the equity market rally. The Newton Global High Yield Bond Fund performed well to rise 3.4%. Our "safe haven" asset, the Newton Index Linked Gilt Fund which was held at the maximum permitted weight, posted the best performance of all the investments, to end the quarter up 9.3%.⁽²⁾

Authorities in the developed world have put in place a raft of measures to try to tackle the challenges associated with their debt-beleaguered economies. However, those measures appear merely to have bought time in easing immediate stresses in sovereign debt and bank funding markets, rather than to have addressed fundamental issues of solvency and economic growth. The deleveraging (debt repayment) of western economies is, we believe, likely to be a lengthy process, spanning many years. Against this background, a high yielding portfolio of low volatility investments appears to offer good prospects over the years ahead.

Fund manager:

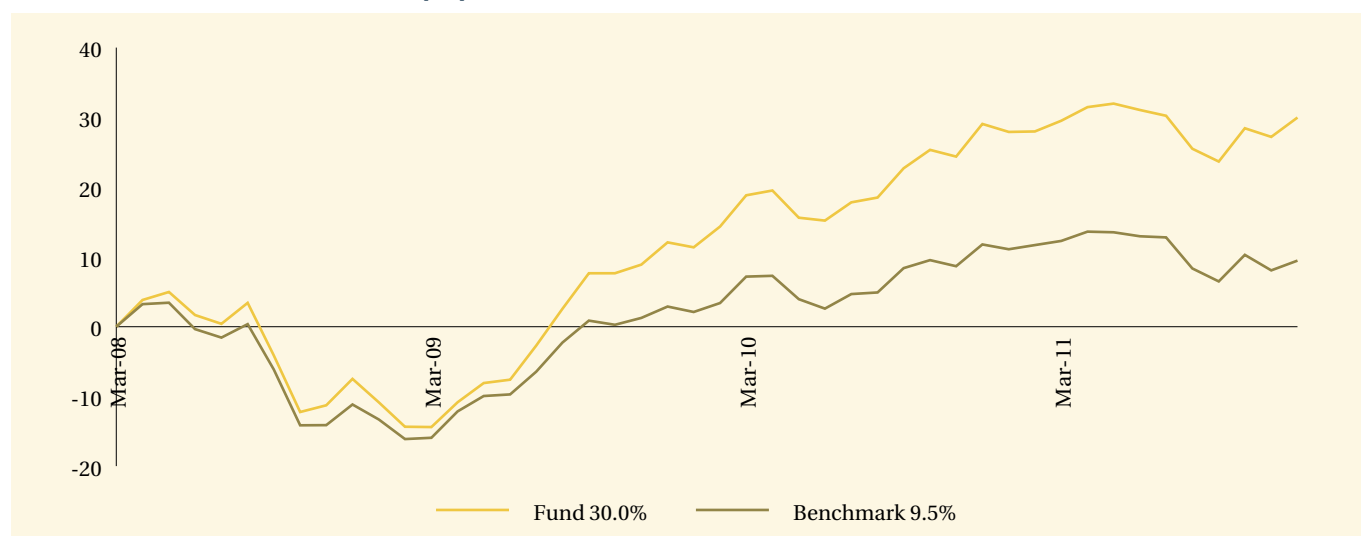
Tim Wilson

(1) Source for all returns: Thomson Reuters Datastream, 31.12.11. All data in sterling terms: FTSE North America, FTSE All Share, FTSE Asia Pacific ex Japan, MSCI Emerging Markets, FTSE Europe ex UK & FTSE Japan.

(2) Source for all 'X' share class returns: Lipper Hindsight, 31/12/11. Calculation basis: Sterling, total return, gross income reinvested, gross of management fees.

Long-term performance

Performance since launch (%)



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Fund	-	-	-	-	-	-	-	21.2	15.2	0.7
Benchmark	-	-	-	-	-	-	-	15.8	8.7	-2.0

Discrete past performance (%)

From	31/12/06	31/12/07	31/12/08	31/12/09	31/12/10
To	31/12/07	31/12/08	31/12/09	31/12/10	31/12/11
Fund	-	-	21.2	15.2	0.7

Source: Lipper, as at 31 December 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.

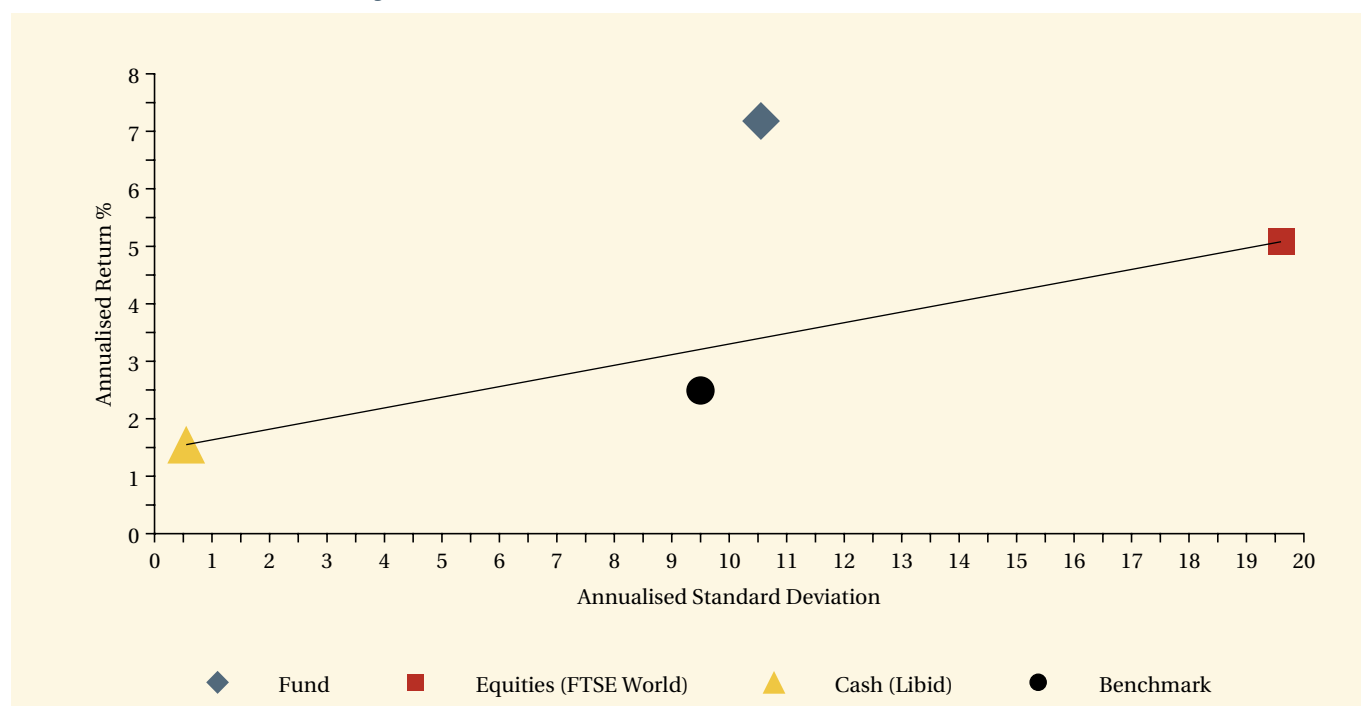
Risk factors

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. This fund can invest in overseas securities which means the Fund is exposed to changes in currency rates. The Fund may invest in emerging markets which have additional risks due to less developed market practices. The Fund may hold sub-investment grade bonds that typically have a low credit rating and carry a high degree of default risk. The Fund may hold fixed interest securities, which are particularly affected by trends in interest rates and inflation. The Fund may invest in smaller companies which may be riskier and less liquid than larger companies. The Fund may use derivatives for efficient portfolio management (EPM) purposes. All of these factors may affect the performance of the Fund and may affect the capital value of your investment.

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	7.2%	10.6%	0.6
Benchmark	2.5%	9.5%	0.2

Source: Lipper, as at 31 December 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.

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.

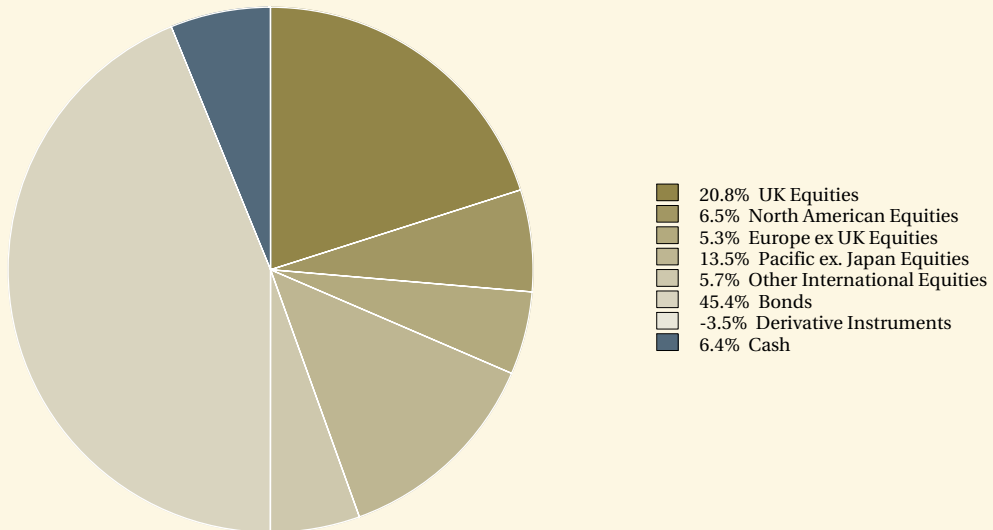
Strategy groups	Representatives from the strategy team, fund managers and research analysts identify global themes and formulate our economic view.
Research team	Global sector analysts, supported by fund managers, identify investment opportunities within the thematic backdrop.
Fund management	Fund managers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

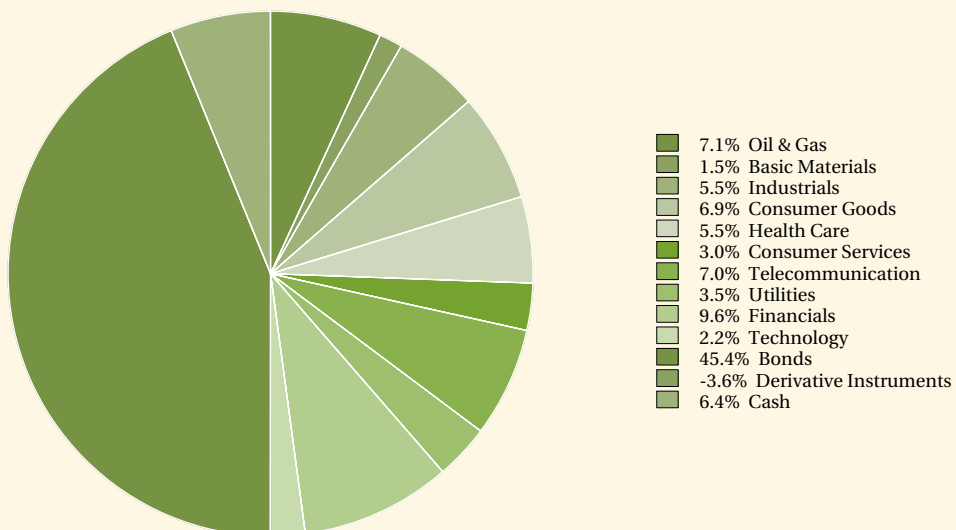
Theme	Factors	Investments
Deleverage	The credit bubble has left many economies carrying levels of debt which materially impair their economic prospects. We anticipate an extended period of relatively low growth and higher economic volatility as debt is reduced to more manageable levels. The scale of 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 31 December 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.

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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