



Newton Absolute Intrepid Fund

Investment Report

Third Quarter 2008

30 years
1978-2008

NEWTON
The Power of Ideas

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Fund information

Long-term track record

The Newton Absolute Intrepid Fund has returned 54.4% since relaunch (31 March 2004), which is equivalent to 10.1% per annum. This is an outperformance of 0.7% per annum compared to the fund's benchmark (Libor 1 Month +4% p.a.). For more detail on the fund's long-term performance, please refer to page 4.

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., ARC £ Steady Growth, IMA Active Managed

Risk profile

Suitable for investors with a medium risk profile.

Fund facts

Fund size (millions):	GBP 395	Ex dividend dates:	01 Jan, 01 Jul
Annual management charge:	1.0%	Pay dates:	28 Feb, 30 Sep
Total expense ratio:	1.13	Last distribution:	4.4452p per unit
Base currency:	GBP	ISIN	GB0006780323
Dividend yield:	3.5%	Sedol	0678032

Focus on the latest quarter

Performance over three months

Newton Absolute Intrepid	-3.9%				
1 month £ Libor +4% p.a.	2.4%	ARC £ Steady Growth:	-7.6%	IMA Active Managed	-11.8%

Source: Lipper, WM & ARC, as at 30 September 2008. Calculation basis: Sterling, total return, bid to bid, without initial charges, net income reinvested, net of management fees.

Significant transactions

Aquisitions
FTSE 100 Index Dec08 UKX 5325 PBT (Put option)
Newcrest Mining Ltd
FTSE 100 Index Sep08 UKX 5225 PBT (Put Option)
BHP Billiton PLC
Thales SA

Disposals
FTSE 100 Index Sep08 UKX 5825 PBT (Put option)
FTSE 100 Index Sep08 UKX 5675 PBT (Put option)
FTSE 100 Index Dec08 UKX 4825 PBT (Put option)
Telefonica SA
A P Moller-Maersk A/S

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

Fund managers' report

Performance summary

Over the review period, the Fund returned -3.92% (total return including income net of UK tax and annual charges, but excluding initial charge) compared to 2.38% for the benchmark of 1-month LIBOR +4%, all in sterling terms.

Performance review

Over the quarter the Fund underperformed 1-month LIBOR +4% during a quarter of extreme volatility across all asset classes. After struggling in July and recovering strongly in August, September saw global stock markets sell off dramatically as a series of major Wall Street institutions collapsed in quick succession and governments around the world scrambled to inject vast sums into global banking markets in order to stave off their collapse.

The Fund benefited from its 25% position in cash, an allocation which rose slightly over the period. The Fund's fixed interest allocation also helped to protect the capital value of the portfolio as equity markets violently corrected.

Oil and commodity-related stocks generally suffered most as commodity prices plummeted. Holdings in stocks such as Hong Kong's Noble Group, the hard commodity supply chain manager and Arch Coal were among leading negatives as were the oil majors Petrobras of Brazil and the UK's BP.

However, it was the Fund's telecom holdings that proved most damaging over the period as the sector sold off severely. The Fund's largest holding, Vodafone, was the worst negative contributor. Its shares violently declined over fears for its Spanish business.

Tele2, the Swedish telecom with exposure to the Russian market was another notable casualty as were Sprint in the US and Millicom, the emerging market telecom provider, whose shares fell violently on news of a relatively minor earnings disappointment.

Positive contributions came from the Fund's more defensive holdings.

The pharmaceutical giant GlaxoSmithKline was the most positive contributor while other healthcare companies with strong relatively stable earnings also rewarded including Medtronic, Novartis and Smith & Nephew, the leading UK orthopaedic supplier.

The tobacco company Reynolds American also rewarded over the period as did select telecom holdings. Korea's LG Telecom attracted investors due to its defensive earnings, while the UK's Cable & Wireless rallied following its approach for the British telecoms company Thus and rumours of a potential splitting off of its UK business.

Review of activity

Activity over the period was restrained as we maintain confidence in the Fund's defensive positioning. We doubled the Fund's fixed interest allocation to 7% through a significant new position in short-dated UK gilts.

In the equity portfolio, sales included the international freight and cargo business Moller-Maersk, which looked vulnerable to a slowing economic backdrop. Telefonica, the Spanish telecom giant with extensive Latin American interests, was the only other disposal of the period. The company had held up relatively well in recent times but its exposure to the Spanish economy made it less attractive than either Vodafone or Millicom, which have extensive developing market exposure and we increased our position in both while their share prices were under severe pressure. We also added to the Fund's holding in the US mobile operator Sprint Nextel, following a recent meeting with its management that re-affirmed our belief in the company's return to profitability.

New additions to the portfolio included the diversified mining business BHP Billiton while on an attractive valuation and the Australian gold

miner Newcrest. The latter was part of a planned increase in the Fund's exposure to gold, which also included adding to the Peruvian gold miner Minas Buenaventura. Gold should prove a natural beneficiary of the current environment given its historic role as the asset of last resort.

The Fund's holdings in gold were further augmented by adding to the position in ETFS Physical Gold, an exchange traded fund which mirrors the underlying price of the commodity, and introducing a new position in Gold Bullion Securities, a similar offering. Elsewhere we continued to favour attractively priced defensive investments with good earnings resilience. New purchases here included William Morrison, the UK supermarket chain, which, due to its value-based offering, is well placed to grow market share as consumers place increasingly greater emphasis on price.

Other new positions included the French electronics business Thales, which provides services for the aerospace, defence and security markets and Actelion, a Swiss biotech company that focuses on delivering treatments for unmet medical needs. Both are relatively insulated from the economic downturn and offer the potential for strong and consistent long-term earnings.

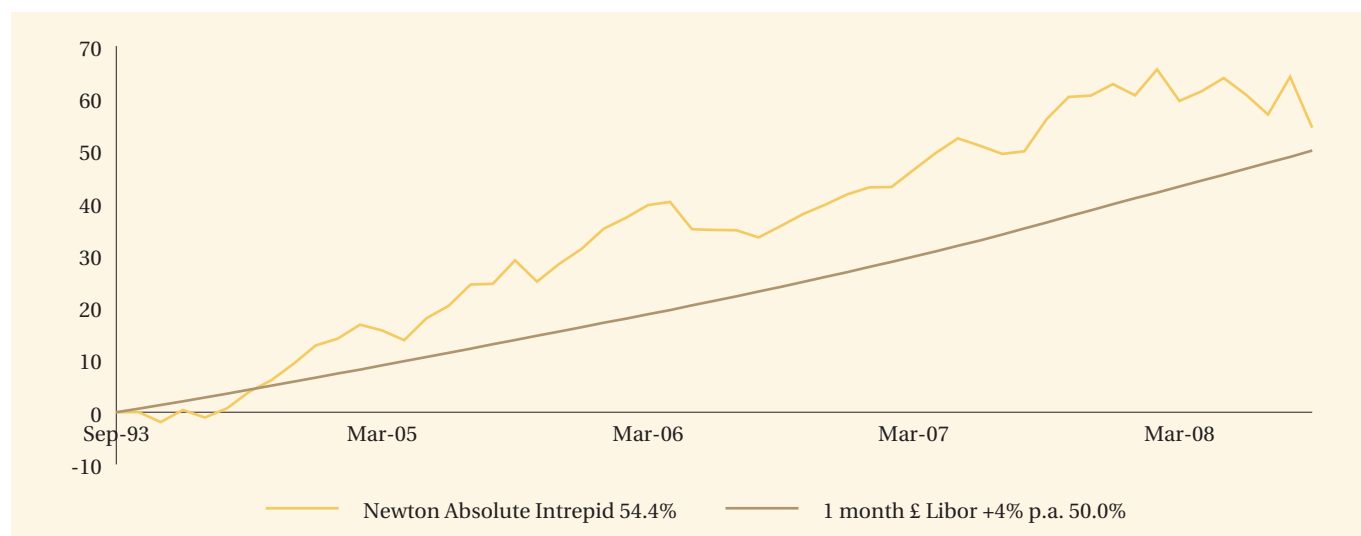
Outlook

For equity investors, this is categorically not the time to 'own the index'. Markets are not cheap – not once valuations are adjusted for profits that are so far above trend and for the high risk of further failures in highly geared businesses (even large and well known ones).

Our equity policy remains highly selective. We strongly believe that carefully chosen equities can continue to provide superior returns for the longer-term investor, albeit with lower returns than those to which we grew accustomed in the two decades preceding the turn of the century and with volatility closer to long-term averages.

Long-term performance

Cumulative performance of the fund



	1999	2000	2001	2002	2003	2004	2005	2006	2007	YTD 2008
Newton Absolute Intrepid	-	-	-	-	-	-	16.4	7.9	14.9	-5.1
1 month £ Libor +4% p.a.	-	-	-	-	-	-	9.0	9.1	10.3	7.3

Discrete past performance - percentage change

From	30/09/03	30/09/04	30/09/05	30/09/06	30/09/07
To	30/09/04	30/09/05	30/09/06	30/09/07	30/09/08
Newton Absolute Intrepid	14.0%	24.2%	5.1%	15.1%	-1.0%

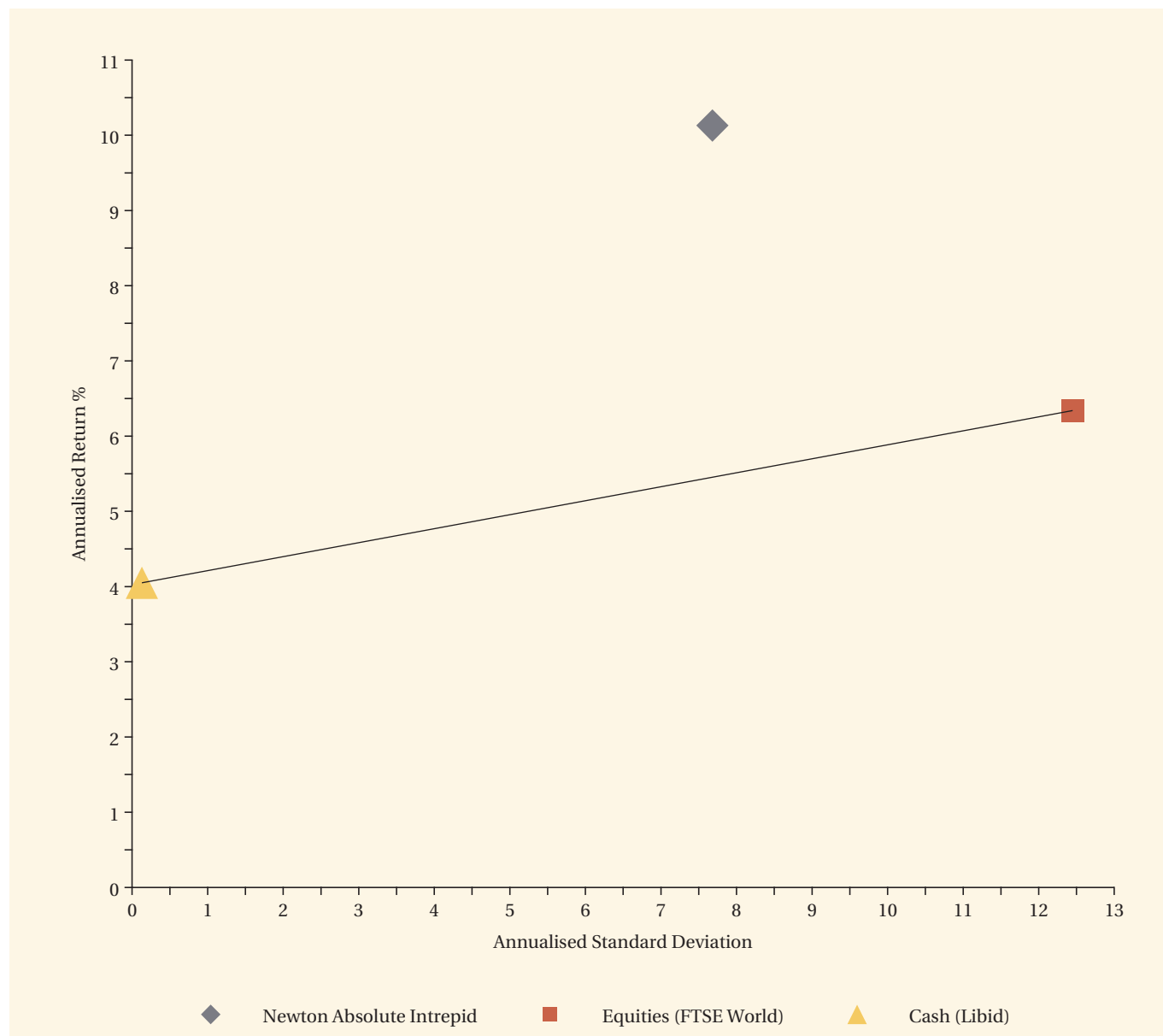
Source: Lipper, WM & Datastream, as at 30 September 2008. Calculation basis: Sterling, total return, bid to bid, without initial charges, net income reinvested, net of management fees.

Risk factors

This is a financial promotion and is not intended as investment advice. Past performance is not a guide to future returns. The value of investments and the income from them can fall as well as rise and investors may not get back the original amount invested. The value of overseas securities will be influenced by fluctuations in exchange rates. If the portfolio invests in sub-investment grade bonds that typically have a low credit rating these carry a high degree of default risk, which can affect the capital value of your investment. If the portfolio has exposure to hedge funds, gold, private equity and property via publicly quoted transferable securities, there are additional risks associated with these sectors.

Long-term performance - risk and reward

Fund return and volatility since launch



This chart shows both return and volatility. The Newton Absolute Intrepid Fund has given a higher return than cash 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
Newton Absolute Intrepid	10.1%	7.7%	0.8%
1 month £ Libor +4% p.a.	9.4%	0.2%	31.0%

Source: Lipper, WM & Datastream, as at 30 September 2008. 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
Earth Matters	Environmental issues have moved to centre stage in the minds of the public and policy makers. Current growth trends in the developing world suggest significant additional stress on resources and the environment.	Acciona, Bunge, Bayer, Arch Coal
Global Realignment	Stronger growth and increasing economic influence of the developing world is challenging the western industrialised nations' domination in terms of wealth, consumption of both natural resources and finished goods and market capitalisation of global stock markets. Some realignment over time is inevitable reflecting the developing world's accumulation of foreign exchange reserves and trade surpluses.	Millicom, Gold Fields, Advanced Info Service, Bursa Malaysia, Tele Norte Leste
Networked World	Communications networks have already transformed our lives, but there is great scope for further expansion. Rapid increases in bandwidth continue to increase networks' potential, and this is driving productivity gains. The explosive growth of mobile internet, combined with innovations in sensor technology, will generate profound changes in many industries.	LG Telecom, Millicom, Sistema, Sprint Nextel, Telstra
Energy Supply	Following decades of underinvestment in oil and gas infrastructure, surplus production and refining capacity is limited. Strong current and forecast demand for energy implies a structurally higher real oil price. This has implications for the oil industry, infrastructure, and alternative energy sources as well as significant macro effects.	Acciona, BP, Arch Coal, StatoilHydro, Petroleo Brasileiro

Portfolio valuation

	Holding (%)
Equities	62.44
Oil & Gas	4.61
Oil & Gas Producers	4.61
BP PLC	1.54
Petroleo Brasileiro SA	1.45
Royal Dutch Shell PLC	0.77
StatoilHydro ASA	0.85
Basic Materials	9.85
Chemicals	1.90
Bayer AG	1.07
Syngenta AG	0.83
Mining	7.94
Arch Coal Inc	0.78
BHP Billiton PLC	0.87
Gold Bullion Ltd	0.98
Gold Fields Ltd	1.19
Minas Buenaventura SA	1.27
Newcrest Mining Ltd	1.82
Newmont Mining Corp	1.02
Industrials	5.62
Construction & Materials	0.51
Acciona SA	0.51
Aerospace & Defence	2.24
BAE Systems PLC	1.32
Thales SA	0.92
General Industrials	1.11
Noble Group Ltd	1.11
Industrial Transportation	0.67
Bangkok Expressway PCL	0.67
Support Services	1.08
Eaga PLC	0.14
Serco Group PLC	0.94
Consumer Goods	2.21

Portfolio valuation

Food Producers	1.17
Bunge Ltd	0.60
OLAM International Ltd	0.56
Tobacco	1.05
Reynolds American Inc	1.05
Health Care	13.23
Health Care Equipment & Services	3.27
Amplifon SpA	0.28
Medtronic Inc	1.39
Smith & Nephew PLC	1.60
Pharmaceuticals & Biotechnology	9.96
Actelion Ltd	0.57
GlaxoSmithKline PLC	5.07
Lilly (Eli) & Co	0.74
Novartis AG	1.22
Roche Hldgs AG	1.26
Wyeth	1.10
Consumer Services	2.09
Food & Drug Retailers	2.06
Morrison (WM) Supermarkets PLC	1.02
Tesco PLC	1.03
Media	0.04
Bonton A.S.	0.00
Bonton A.S.	0.00
Bonton Book A.S.	0.00
Bonton Music A.S.	0.01
Bonton New Film Ent. A.S.	0.03
Bonton Pictures A.S.	0.00
Telecommunication	16.95
Fixed Line Telecommunications	4.77
Cable & Wireless PLC	1.12
Elisa Corp Oyj	1.01
Tele Norte Leste Participacoes	0.88
Tele2 AB	0.72
Telstra Corp Ltd	1.05

Portfolio valuation

Mobile Telecommunications	12.19
Advanced Info Service PCL	0.91
Deutsche Telekom AG	1.92
LG Telecom Ltd	0.88
Millicom Intl Cellular	1.85
Sistema JSFC	0.68
Sprint Nextel Corp	1.35
Vodafone Group PLC	4.60
Utilities	1.00
Gas Water & Multiutilities	1.00
Veolia Environnement	1.00
Financials	5.91
Banks	1.80
Bangkok Bank PCL	0.84
Standard Chartered PLC	0.96
Real Estate	0.12
Deutsche Wohnen AG	0.12
General Financial	0.56
Acom Co Ltd	0.00
Bursa Malaysia Berhad	0.56
Equity Investment Instruments	3.43
ETFS Agriculture DJ-AIGSM 0% Secured Note	2.33
ETFS Physical Gold 0% Secured Note	1.09
Technology	0.97
Technology Hardware & Equipment	0.97
Cisco Systems Inc	0.97
Bonds	6.98
Government Bonds	3.74
UK Bonds	3.74
UK Treasury Bill 0% 19/1/2009 GBP	3.74
Index Linked	3.24
UK Index Linked	3.24

Portfolio valuation

Anglian Water Services Finance 4.125% I/L Nts 28/7/2020 GBP	1.21
British Telecommunications PLC 3.5% Idx Lkd 25/04/2025 GBP	1.04
National Grid Gas PLC 4.1875% Index-Linked 14/12/22	0.98
Corporate Bonds	0.00
UK Corporate Bonds	0.00
AES Drax Energy Ltd 11.25% Bds 30/08/2010 GBP	0.00
Other Investments	2.53
Barclays Bank PLC CD 5.77% 05/09/08 - 05/03/09	2.53
Cash	27.65
Derivative Instruments	0.40
Options	0.40
Euro - Bund Future Dec08 RXZ8C 115 EUX (Call Option)	0.40

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 Investment Management Limited (NIM)

Telephone: 020 7163 9000

Fax: 020 7163 5063

email: privateclients@newton.co.uk

www.newton.co.uk/pim

NIM London

The Bank of New York Mellon Centre
160 Queen Victoria Street
London EC4V 4LA

NIM Edinburgh

2 Festival Square
Edinburgh EH3 9SU

NIM Leeds

1 Whitehall Riverside
Leeds LS1 4BN



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ASSET MANAGEMENT