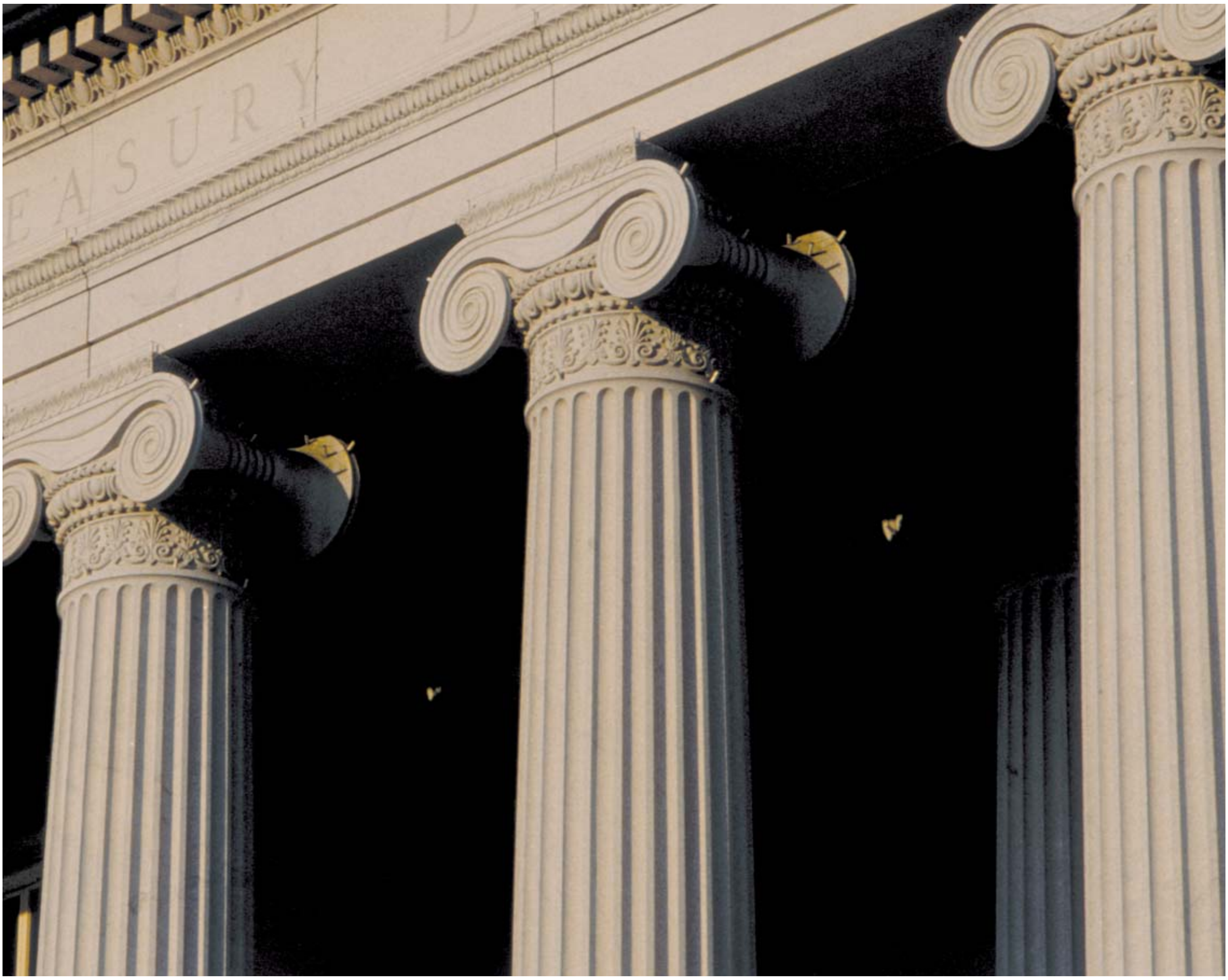
Newton Phoenix Fund

Investment Report - Fourth Quarter 2008

➤ A BNY MELLON ASSET MANAGEMENT COMPANY℠

NEWTON
The Power of Ideas



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Fund information

Long-term track record

The Newton Phoenix Fund has returned 27.1% since relaunch (11 April 2003), which is equivalent to 4.3% per annum. 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 58	Ex dividend dates:	01 Feb, 01 Aug
Annual management charge:	0.8%	Pay dates:	20 Mar, 21 Sep
Total expense ratio:	0.84%	Last distribution:	1.4176p per unit
Base currency:	GBP	ISIN	GB00B0Z86D35
Dividend yield:	2.5%	Sedol	B0Z86D3

Focus on the latest quarter

Performance over three months

Newton Phoenix Fund	-12.9%				
1 month £ Libor +2% p.a.	1.5%	ARC Balanced Asset (est)	-2.7%	IMA Cautious Managed	-5.3%
FTSE W World	-3.2%	ML £ Non-Gilt Index £	2.0%	FTSE All Share	-10.2%

Source: Lipper, WM, ARC & Datastream, as at 31 December 2008. Calculation basis: Sterling, total return, bid to bid, without initial charges, net income reinvested, net of management fees.

Significant transactions

Aquisitions
Treasury 4.75% Stk 7/09/2015
USA Treasury Notes 1.875% TII 15/07/2013
BH Global Limited
MW Tops Ltd
Virgin Media Finance 9.75% Nts 15/04/2014

Disposals
Deutsche Telekom Intl Finance 8.125% 29/5/12
RWE Finance BV 6.125% Bds 26/10/2012
FRM Credit Alpha Ltd
Wells Fargo & Co 4.75% Bds 30/11/2010
Gold Bullion Ltd

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

Fund managers' report

The Phoenix Fund suffered its worst month in October – a fall of 14%. Indeed, the period of mid September to the end of October marked the worst period of the year for investors as virtually all assets fell at the same time. This is the worst environment for diversified investors as diversification provides no protection in an environment of uniformly falling asset prices. For the quarter, the Phoenix Fund fell 12.9% and for 2008 the fall was 22.8%. All but 1.6% of the 2008 fall occurred in September and October.

2008 was a year for most investors to forget, but it is important that we review the drivers of performance and make changes where necessary. We have made two strategic changes during the fourth quarter.

The first is that we have increased our flexibility to make broader asset allocation changes. At the relaunch of the Phoenix Fund in 2003, we said that we would only move the allocation to any asset by up +/- 5% from the central weighting. This was to ensure the Fund remained diversified at all times. However, the last year or so has shown that if all assets fall at the same time, diversification provides little shelter. As funds such as the Phoenix Fund have gained in popularity and assets that were once alternative become more closely correlated, the benefits of diversification diminish. At the same time, the limited flexibility of the rules governing asset allocation restricted our ability to become more defensive. We have therefore, increased our flexibility and now can move the allocation to each asset to +/- 10.

The second change is to split our investment grade bond weighting into government bonds and corporate bonds. A major negative factor in 2008 was our preference for corporate bonds over government bonds. At times, we had virtually no exposure to UK government bonds. In future, we will ensure that we own some government bonds at all times. The extent to which we own them will be driven by our investment views.

In the quarter, global economies seemed to catch up with the prevailing gloom in financial markets. Amidst high financial market volatility and fraud in the hedge fund industry, central banks slashed interest rates and began to talk of printing more money as inflation concerns were replaced by deflation worries. Sterling accelerated its fall against the major world currencies.

Government bonds around the world continued to perform well. Our decision to introduce a separate category for government bonds prompted a purchase of a medium dated gilt in November with the intention of reducing volatility rather than increasing returns. However, by year end the gilts were standing at a profit of 6%.

During the quarter, the divergence between the performance of the perceived ultimate safety of government bonds and corporate bonds accelerated, damaging performance. We continue to believe that there is better value in corporate bonds than government bonds and will maintain our focus on that area. The Fund has a good spread of generally shorter and medium dated corporate bonds.

Sub investment grade bonds fell sharply in October before levelling off in November and December. We have been very nervous of this area since 2006 and consequently have had little exposure. We are now seeing more attractive opportunities and are likely to add to this area at some point this year.

Index linked bonds were weak in October but recovered well in December. Having sold some bonds in the previous quarter, we repurchased US government inflation protected bonds (currency hedged) in early November. These bonds were trading below equivalent bonds without inflation protection. Although we expect inflation worries to be in the background for much of this year, the actions of the Federal Reserve are ultimately inflationary and the cheap valuations of inflation protected bonds prompted our purchase. Equity markets fell sharply in October and November before recovering in December. Having had less than 30% of the Fund in equities throughout much of the year, more attractive valuations prompted an increase in this asset.

The share prices of hedge fund investment trusts continued to move away from the underlying value of the assets in October. Sentiment worsened markedly on the announcement of the Madoff fraud (the Fund has an exposure of less than 0.1%). Although the Fund's exposure to hedge funds was reduced by only 1.3%, a number of funds have announced plans to return capital to shareholders. We received the first such payment in December and will receive a further payment representing 3.3% of the Fund in early February. Further payments are expected throughout 2009.

Commodity prices fell throughout the quarter, notably energy and industrial metals. The Fund has minimal exposure to these commodities directly (although it owns a number of equities in these areas), focussing instead on agricultural commodities and gold. Although agricultural commodities fell in October, they steadied in November and December, while gold ended barely changed over the quarter.

Private equity has been a concern of ours since 2005 and its relative resilience has been a surprise to us. The latest quarter saw an end to this trend with prices halving in the last three months. Our limited exposure was reduced even further by these falls as well as a small number of sales.

Property weakened again and any property investments with high debt were punished particularly heavily. While our low weighting and preference for investments with low or no debt helped, these also fell.

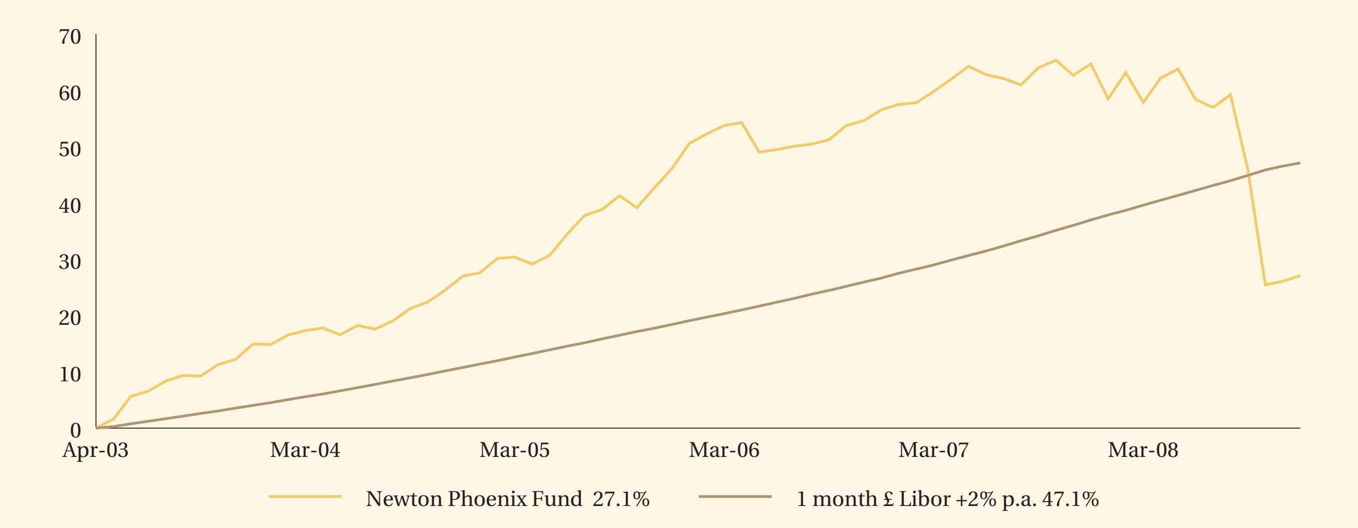
Clearly the Phoenix Fund has not beaten cash in 2008 and the fact that it has remained diversified with lower volatility than markets is cold comfort to investors. We have made some changes to the Fund and will explore further changes if they assist us in our aim.

Fund management team:

Philip Collins and Charles Insley

Long-term performance

Performance since launch



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Newton Phoenix Fund	-	-	-	-	-	10.5	15.0	7.2	5.2	-22.8
1 month £ Libor +2% p.a.	-	-	-	-	-	6.5	6.9	7.0	8.1	7.4

Discrete past performance - percentage change

From	31/12/03	31/12/04	31/12/05	31/12/06	31/12/07
To	31/12/04	31/12/05	31/12/06	31/12/07	31/12/08
Newton Phoenix Fund	10.5%	15.0%	7.2%	5.2%	-22.8%

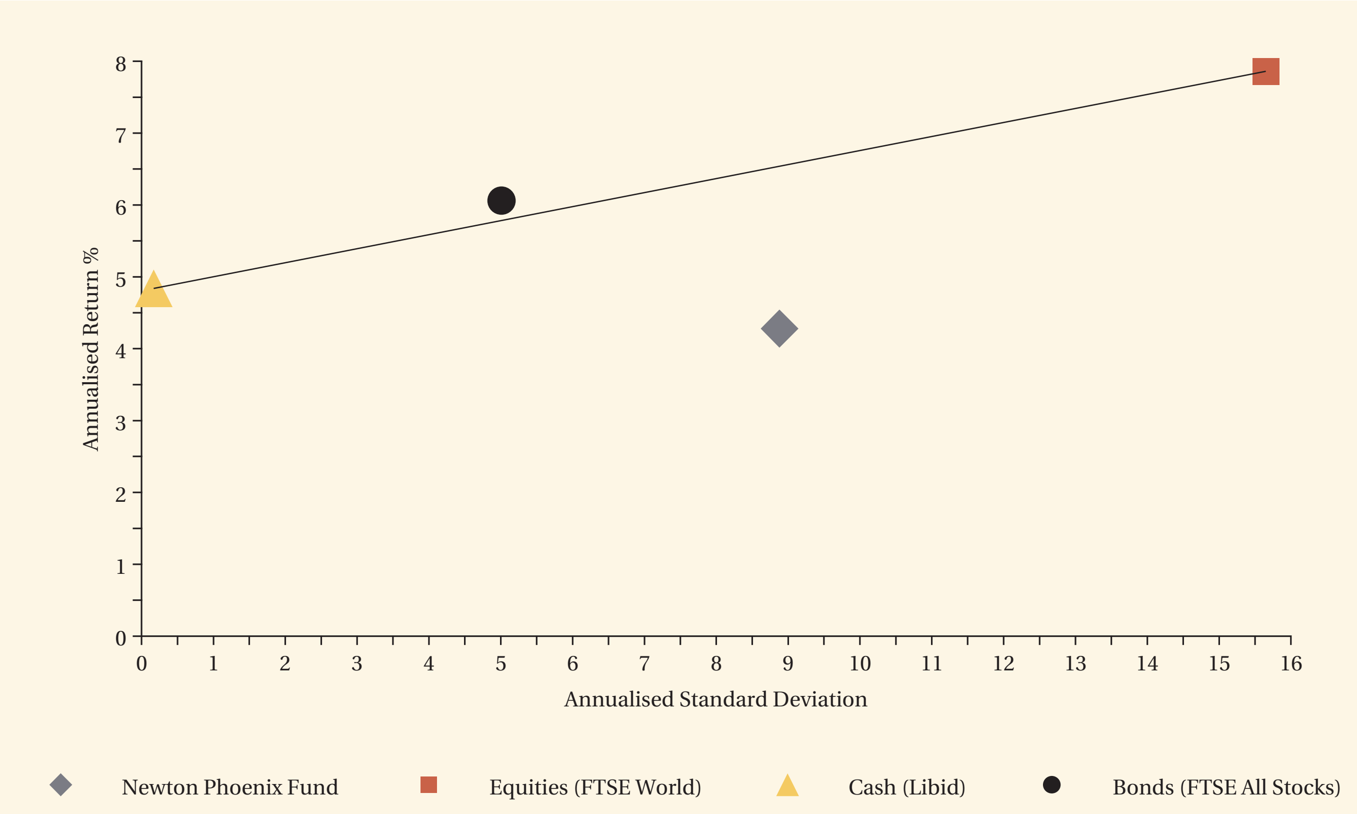
Source: Lipper, WM & Datastream, as at 31 December 2008. Calculation basis: Sterling, total return, bid to bid, without initial charges, net income reinvested, net of management fees.

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 Phoenix Fund has provided an annualised return of 4.3% 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
Newton Phoenix Fund	4.3%	8.9%	-0.1%
1 month £ Libor +2% p.a.	7.0%	0.2%	8.8%

Source: Lipper, WM & Datastream, as at 31 December 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.

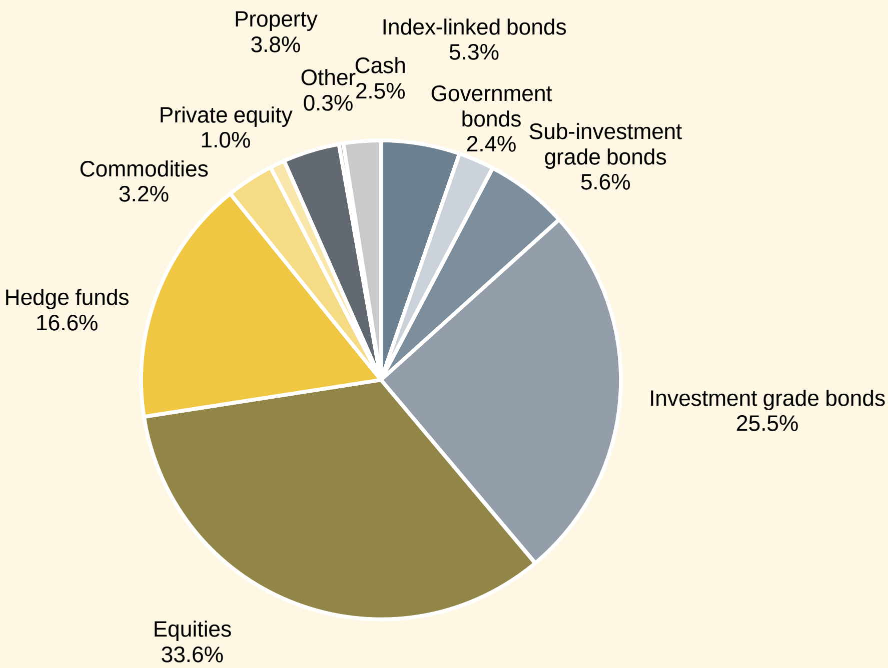
Strategy groups	Representatives from the strategy team, fund managers and research analysts identify global themes and formulate our economic view.
Research team	Global sector analysts, supported by fund managers, identify investment opportunities within the thematic backdrop.
Fund management	Fund managers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

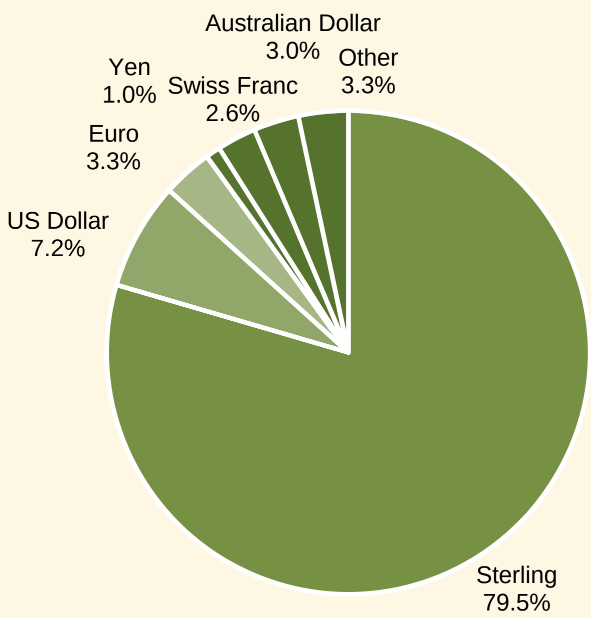
Theme	Factors	Investments
Earth Matters	Environmental issues have moved to centre stage in the minds of the public and policy makers. Current growth trends in the developing world suggest significant additional stress on resources and the environment.	Acciona, Bayer, K&S, Harewood Agrinvest, Ceres Agriculture Fund
All Change	The previously benign period of stable growth, low inflation, and easy credit, which allowed private sector debt and financial leverage to grow to unsustainable levels (as described in a previous theme, "Becalmed") has come to an end. When assessing investments we assume that access to credit will remain difficult, which favours companies with limited financing requirements and argues against exposure to highly-indebted customers.	BP, GlaxoSmithKline, Roche, Vodafone
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.	Tele Norte, LG Telecom, Millicom, Sprint Nextel, Telstra
Energy Supply	Following decades of underinvestment in oil and gas infrastructure, surplus production and refining capacity is limited. Despite weak demand currently, forecast supply of 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.	BP, XTO Energy, Dana Petroleum, Subsea 7, BG

Fund analysis

Asset class weightings



Currency exposure



Source for all charts: Newton, as at 31 December 2008

Portfolio valuation

	Holding (%)
Cash	**4.90**
Government Bonds	**2.42**
Treasury 4.75% Stk 7/09/2015	2.42
Investment Grade Bonds	**25.48**
Anglo American Capital PLC 6.875% Bds 1/5/2018 GBP	1.22
Barclays Bank PLC 4.75% FRN Perp 29/3/2049 EUR	0.64
BAT Intl Finance PLC 5.75% EMTN 9/12/2013 GBP1000	0.62
British Telecommunications PLC 8%-Var Bds 7/12/16 GBP1000	1.17
Commonwealth Bank of Australia 4.875% Bds 19/12/2023 GBP	1.19
CRC Breeze Finance SA 5.29% Bds 8/05/2026 EUR50000	0.63
Daily Mail & General Trust PLC 7.5% Bds 29/3/2013 GBP10000	0.58
Danske Bank A/S 4.25% FRN MTN 20/6/2016 EUR	1.39
Dubai Hldg Commercial Ops 6% EMTN 1/02/2017 GBP50000	0.37
Firstgroup PLC 8.125% Bds 19/9/2018 GBP (Var)	0.89
France Telecom SA 7.5% (9%) Bd 14/3/2011 GBP	1.06
Gaz Capital SA 6.58% EMTN 31/10/2013 GBP(Var)	0.95
Glencore Finance Europe 6.5% EMTN 27/2/2019 GBP50000	0.69
HBOS PLC 4.875% Bds 20/3/2015 EUR1000	1.50
Imperial Tobacco Finance PLC 4.375% Bds 22/11/2013 EUR50000	1.39
London Stock Exchange PLC 6.375% Bds 7/7/2016 GBP50000	1.22
Marks & Spencer PLC 6.375% EMTN 7/11/2011 GBP '83'	0.59
Metlife Global Funding I 5.25% EMTN 9/01/2014 GBP50000	1.25
Pacific Life Funding LLC 5.125% Bds 20/01/2015 GBP1000	1.18
Santander Issuances SA 5.375% EMTN 25/07/2017 GBP	1.15
Standard Chartered Bank 8.103% Stp Perp 29/5/2049 GBP	1.15
Svenska Handelsbanken AB 6.125% EMTN 4/3/2049 GBP1000	1.57
Svenska Handelsbanken AB 4% FRN MTN 20/04/2011 EUR	1.84
Unique Pub Finance Co PLC 5.659% Bds 30/06/2027GBP 'A4'	0.96
Xstrata Canada Financial Corp 7.375% EMTN 27/085/2020 GBP	0.27
Sub Investment Grade Bonds	**5.64**
Barclays Bank PLC 0% FTSE AutoCall 27/06/2013	1.02
Barclays Bank PLC FRN 25/06/2011 INR Ser 'FX'	0.59
BCM Ireland Preferred FRN 15/02/2017 EUR50000 RegS	0.21
Breeze Finance 6.708% Bds 19/04/2027 EUR 'B'	0.21
Collins Stewart Tullett PLC 8.25% Bds 12/08/2014 GBP RegS	0.66
Edcon Holdings Proprietary Ltd FRN 15/06/2015 EUR (Var)	0.18
Kensington Group PLC 9% Bds 21/12/2015 GBP50000	0.10

Portfolio valuation

New City High Yield Fund Ltd	0.26
Saphir Finance PLC 6.8509% Perp 4/07/2049 GBP	0.10
Societe Generale Acceptance NV 0% FTSE 100 Autocall 31/1/2014	1.25
Stena AB 6.125% Bds 1/02/2017 EUR RegS	0.42
Virgin Media Finance PLC 9.75% Nts 15/04/2014 GBP1000	0.64
Index Linked	**5.34**
Anglian Water Services Finance 4.125% I/L Nts 28/7/2020 GBP	1.28
National Grid Gas PLC 4.1875% Index-Linked 14/12/22	1.46
Tesco PLC 4% Idx Lkd Nts 8/09/2016 GBP	1.32
USA Treasury Notes 1.875% TII 15/07/2013 USD1000	1.29
Equities	**33.59**
Acciona SA	0.42
Air Liquide SA	0.55
Altria Group Inc	0.50
Ariba Inc	0.27
BAE Systems PLC	0.44
Bayer AG	0.54
Belle Intl Holdings Ltd	0.18
BG Group PLC	0.69
BHP Billiton PLC	0.53
BP PLC	0.97
British American Tobacco PLC	0.58
Cable & Wireless PLC	0.64
Capita Financial Managers Morant Wright Japan B (Acc)GBP	0.72
Centrica PLC	0.71
Cisco Systems Inc	0.55
Cobham PLC	0.49
Companhia Vale do Rio Doce	0.47
Dana Petroleum PLC	0.20
DBS Group Holdings Ltd	0.29
DBS Group Holdings Ltd NPV Sub Rts (23/1/2009)	0.05
Deutsche Post AG	0.51
Eaga PLC	0.28
eBay Inc	0.21
Elders (Merrill Lynch Intl) Japan Cap Protected 111 17B	0.56
Elders (Merrill Lynch Intl) 9% High Yield Shs Cls 24A	0.42
Elders (Merrill Lynch Intl) Floating Rate Income Shs 24C	0.52
Elders (Merrill Lynch Intl) Capital Accumulation IV 25A	1.05
Fresenius Medical Care AG	0.76

Portfolio valuation

GlaxoSmithKline PLC	1.07
Goldman Sachs Group Inc	0.28
GVT Holding SA	0.24
Harbin Power Equipment Co	0.18
Harewood Structured Invest PCC BNP Par Absolute Prog Prf Shs	0.82
HSBC Infrastructure Co Ltd	0.52
ICAP PLC	0.44
Japan Tobacco Inc	0.62
K+S AG	0.64
LG Telecom Ltd	0.43
Lilly (Eli) & Co	0.50
Lonza Group AG	0.67
Makhteshim-Agan Industries Ltd	0.32
Millicom Intl Cellular	0.53
Newcrest Mining Ltd	0.47
Novartis AG	0.92
Petroleo Brasileiro SA	0.45
Prudential PLC	0.48
QBE Insurance Group Ltd	0.27
Roche Hldgs AG	1.02
Scottish & Southern Energy PLC	0.42
Serco Group PLC	0.30
Smith & Nephew PLC	0.40
Smiths Group PLC	0.41
Sprint Nextel Corp	0.45
Standard Chartered PLC	0.93
StatoilHydro ASA	0.43
Subsea 7 Inc	0.21
Taiwan Semiconductor Manufact	0.27
Takeda Pharmaceutical Co Ltd	0.36
Tele Norte Leste Participacoes	0.33
Telstra Corp Ltd	0.79
Tesco PLC	0.82
VeriSign Inc	0.27
Vodafone Group PLC	1.01
Wyeth	0.88
XTO Energy Inc	0.31
Hedge Funds	**16.63**
AcenciA Debt Strategies Ltd	0.58
Alternative Inv Strategies Ltd	0.65

Portfolio valuation

BH Global Limited	1.09
Bluecrest Allblue Fund Ltd	2.50
Dexion Trading Ltd	0.72
F&C Event Driven Limited	0.73
FRM Credit Alpha Ltd	2.15
Goldman Sachs Dynamic Opps Ltd	0.97
Gottex Market Neutral Tst Ltd	0.45
MW Tops Ltd	3.18
Saltus European Debt Strat Ltd	0.49
Signet Gbl Fxd Inc Strategies	1.28
Tapestry Investment Co PCC Ltd	1.82
Commodities	**3.25**
Barclays Bank PLC 0% Prot Agric GCSI Div 26/3/13	0.45
Ceres Agriculture Fund Limited	0.34
Gold Bullion Ltd	1.50
Harewood Structured Invest PCC BNP Paribas Agrinvest Prf Shs	0.61
Harewood Structured Invest PCC BNP Par Energy Base Met Prf Sh	0.35
Private Equity	**1.01**
F&C Private Equity Trust PLC	0.34
Global MENA Financial Assets	0.04
JP Morgan Private Equity Ltd	0.33
Pantheon Intl Participations	0.07
Pantheon Intl Participations Red Shs GBP0.01	0.22
Property	**3.81**
Advantage Property Income Tst	0.07
Barclays Bank PLC IDX Cert 31/3/09 (Prop Idx)	1.11
Champion Real Estate Inv Trust	0.18
F&C Commercial Property Trust	0.85
Hongkong Land Holdings Ltd	0.20
Invista European Real Est Tst	0.06
Invista Foundation Prop Trust	0.18
Mapletree Logistics Trust	0.22
Matrix European Real Estate IT	0.00
UK Commercial Property Tst Ltd	0.93
Currency Hedging	**-2.38**
Other	**0.30**
Alternative Asset Opps PCC Ltd US Traded Life Interests Fund	0.08
Ruffer Investment Co Ltd Red Ptg Pref Shs GBP0.0001	0.22

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)

Tel: 020 7163 9000
Fax: 020 7163 5063
email: privateclients@newton.co.uk

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

newton.co.uk/pim

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