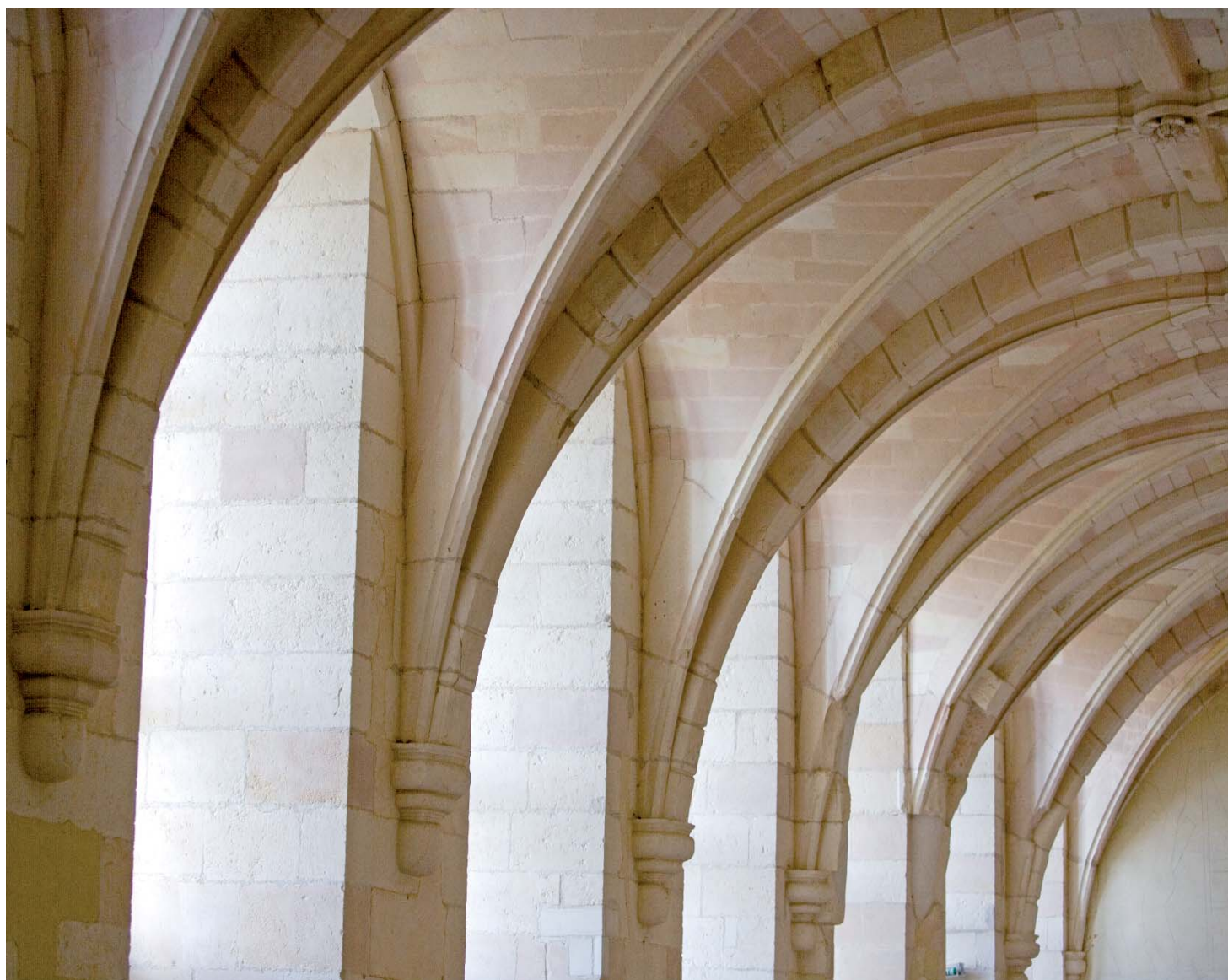


Newton Falcon Fund

Investment Report - First Quarter 2009

► A BNY MELLON ASSET MANAGEMENT COMPANYSM

NEWTON
The Power of Ideas



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Fund information

Long-term track record

The Newton Falcon Fund has returned 59.9% since launch (13 November 1998), which is equivalent to 4.6% per annum. This is an outperformance of 3.5% 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 capital growth over the long term from a portfolio invested in UK and overseas equities across a wide range of industries and countries. The manager of the fund is expected to invest with limited reference to the composition of the benchmark, and as a result the fund's performance may differ from the benchmark by a wide margin. For most of the time the fund will be fully or almost fully invested in equities, but it is permitted to hold other assets.

Expected characteristics

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

Volatility of return: High. Investors can expect to experience significant fluctuations in the value of their holding, driven by rises and falls in equity markets.

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

Performance references

The benchmark is 50% FTSE All Share Index, 50% MSCI World ex UK Index (£).

Risk profile

Suitable for investors with a high risk profile.

Fund facts

Fund size (millions):	GBP 56	Ex dividend dates:	28 Feb, 31 Aug
Annual management charge:	1.5%	Pay dates:	Two business days before 30 Apr, 31 Oct
Total expense ratio:	1.59%	Last distribution:	1.8851p per unit (inc units only)
Base currency:	GBP	ISIN	GB0032585050
Dividend yield:	1.9%	Sedol	3258505

Focus on the latest quarter

Performance over three months

Newton Falcon Fund	-2.6%				
Benchmark	-10.3%	ARC £ Equity Risk (est)	-7.1%	IMA Global Growth	-7.9%
FTSE All Share	-9.1%	MSCI World ex UK	-11.6%		

Source: Lipper, ARC & Datastream, as at 31 March 2009. Calculation basis: Sterling, total return, bid to bid, without initial charges, net income reinvested, net of management fees.

Major contributors to relative performance

Positive	%
Sprint Nextel Corp	1.94
HSBC Holdings PLC (not held)	0.72
Wyeth	0.61
ETFS Physical Gold	0.55
HTC Corporation	0.48

Negative	%
Rio Tinto PLC (not held)	-0.48
BG Group PLC (not held)	-0.28
Deutsche Post AG	-0.23
Novartis AG	-0.19
Millicom Intl Cellular	-0.16

Significant transactions

Acquisitions
Deutsche Telekom AG
Unilever PLC
Nestle S.A.
ETFS Physical Gold
Telstra Corp. Ltd.

Disposals
Treasury 2.5% Index-Linked 23/08/2011
Symrise AG
Standard Chartered PLC
Societe Generale FTSE100 Autocall 2014
Sprint Nextel Corp

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

Fund managers' report

The opening months of 2009 were a continuation of the torrid conditions of 2008, before equity markets staged a partial recovery in March. In relative terms, the Fund had a good quarter. The fall of 2.6% was over 7.5% better than the benchmark return. Our heavily underweight position in the financials was once again of benefit in a very turbulent few months for the sector. Sprint Nextel was the biggest single contributor, rising by almost 100% after we had significantly increased the holding late last year. The Sprint share price began the year at very depressed levels, reflecting the doubts of analysts and investors as to the company's financial health. Fourth quarter results, as we expected, demonstrated that Sprint is still able to generate substantial free cash flow, and has ample liquidity. We sold some of the holding in late February, simply because the combined exposure to the company through shares and the 2011 bond had reached almost 5% of the fund. Other stocks that

contributed strongly included Wyeth, which agreed to a merger with Pfizer at a premium to the prevailing share price, and HTC, which was repurchased at an attractive valuation last quarter. Finally, the Fund's cash balance and the investment in the ETFS physical gold ETF also helped relative performance.

Our All Change theme, as we have indicated previously, emphasises the need to focus on stable, cash generative companies with sound finances. The argument is that the current crisis is not a typical cyclical adjustment, but rather a fundamental retreat from the excessive borrowing of the last decade and more. The effects of this retreat may yet be felt for a considerable period of time. A number of the largest purchases made during the quarter are representative of our ongoing efforts to refocus the portfolio to reflect this expectation.

Deutsche Telekom, for example, offers a dividend yield of over 8% that is almost twice covered by free cash flow. If telecom revenues do prove to be more vulnerable than we expect, we believe that companies such as this will have enough scope to cut costs or delay capital expenditure. On the other hand, there are also signs that the traditionally harsh regulatory environment for Deutsche Telekom will be eased, as the German government recognises that investment to upgrade telecommunication infrastructure may be just the kind of project they are looking for to boost economic activity. Other regulators may follow suit, allowing the network owners to invest with greater confidence that they will be able to make a reasonable return.

Telstra has been particularly active in improving service quality and network speeds, prioritising the parts of Australia where they expect to make the best return on their investment, whilst also pursuing an ambitious cost-rationalisation programme. This approach was showing signs of success, helped by the fact that Telstra owns market-leading businesses in competing networks (fixed line, mobile, and cable). The share price has been weak, however, following a breakdown in the company's relationship with its regulator over a government-sponsored plan to build a high-speed fixed broadband network, and the subsequent announcement of the current CEO's departure. At a dividend yield of over 9%, to which the company is committed, we felt that the shares were adequately discounting the associated risks, and purchased a holding.

Companies selling staple consumer goods performed relatively well for most of 2008, but more recently their shares have fared less well. Whilst there are risks that Nestle and Unilever suffer from consumers turning away from branded goods to cheaper, "private label" offerings, we believe that their businesses will be relatively resilient. Both companies' shares were trading on earnings multiples as low as we can remember seeing them, and paying attractive dividend yields.

During the quarter we increased the holding in ETFs Physical Gold, for reasons that we explained in last quarter's report. Government and central bank policy has ventured into yet more outlandish territory this year, reinforcing the case for exposure to gold, in our opinion. We also increased the

Fund's investments in the oil and gas sector, principally through the reintroduction of a holding in Devon Energy. The shares had been very weak, even by the standards of the sector, as Devon had very little hedging in place. It does, however, have good assets and a low level of debt, and we believe would make an attractive fit for a potential acquirer such as Exxon.

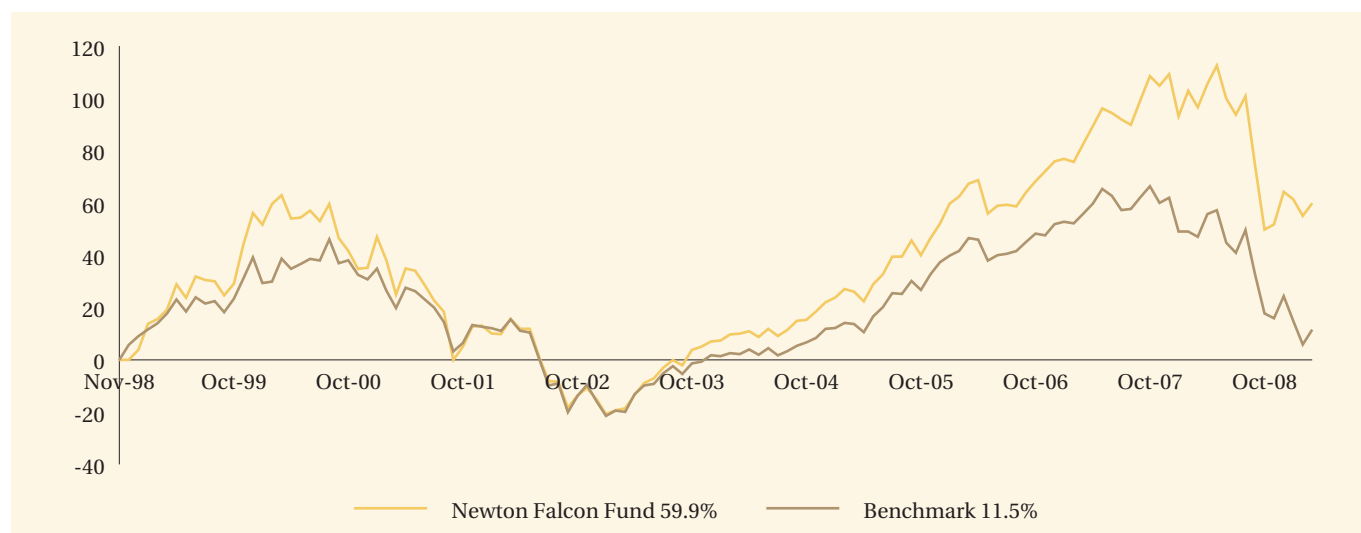
Of the sales carried out during the quarter, the most significant was probably Standard Chartered. We are concerned by the potential impact of increasing bad debt charges, particularly in parts of the loan book exposed to areas such as the Middle East and Asian manufacturing, which have exhibited rapid loan growth in recent years. The premium valuation of the shares leaves little room for disappointment in the near term, although the long term prospects remain attractive. As a result we did not sell the holding entirely, and hope to make this a more meaningful position again in future at a lower price.

Fund management team:

Robert Hay and Ross Ciesla

Long-term performance

Performance since launch



	2000	2001	2002	2003	2004	2005	2006	2007	2008	YTD 2009
Newton Falcon Fund	-13.4	-16.4	-24.8	26.0	14.0	24.6	15.7	19.0	-21.5	-2.6
Benchmark	-6.0	-13.9	-25.2	20.8	9.9	22.8	10.6	6.6	-23.2	-10.3

Discrete past performance - percentage change

From	31/03/04	31/03/05	31/03/06	31/03/07	31/03/08
To	31/03/05	31/03/06	31/03/07	31/03/08	31/03/09
Newton Falcon Fund	14.6%	32.8%	9.0%	7.7%	-18.7%

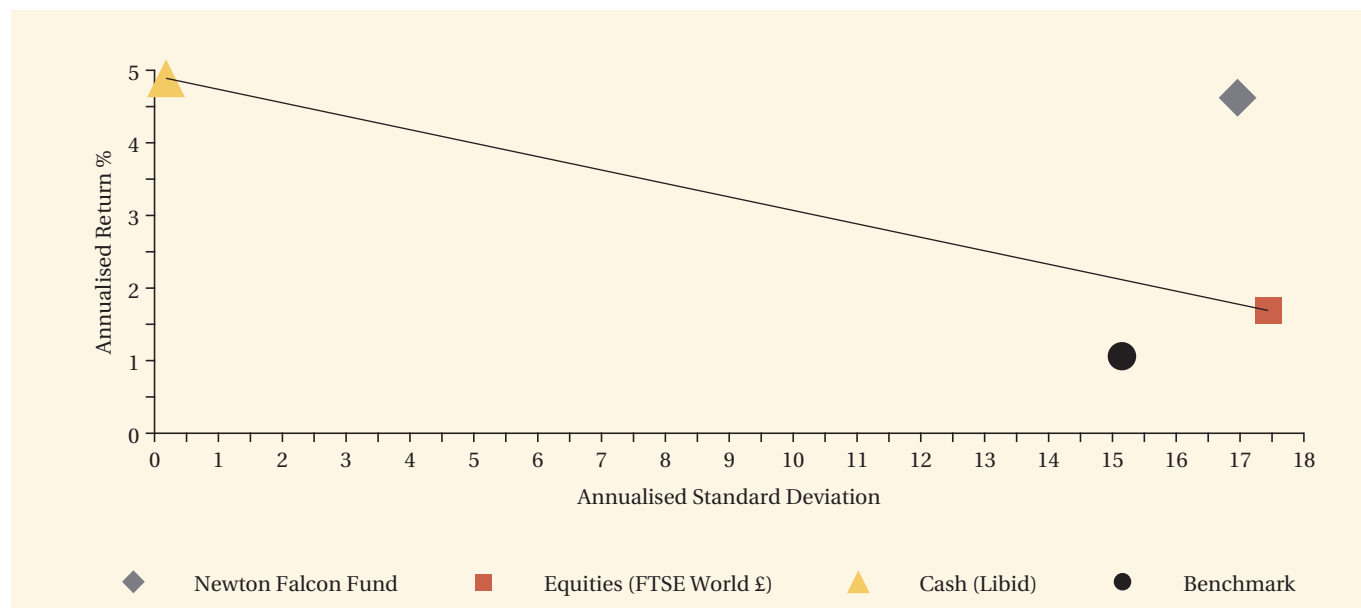
Source: Lipper & Datastream, as at 31 March 2009. Calculation basis: Sterling, total return, bid to bid, without initial charges, net income reinvested, net of management fees.

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 Falcon Fund has given a higher return than the benchmark and world equities with higher volatility than the benchmark. The launch date of the fund was 13 November 1998.

Risk and return since launch

	Annualised Return	Volatility	Sharpe ratio
Newton Falcon Fund	4.6%	17.0%	0.0%
Benchmark	1.1%	15.1%	-0.3%

Source: Lipper & Datastream, as at 31 March 2009. 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.

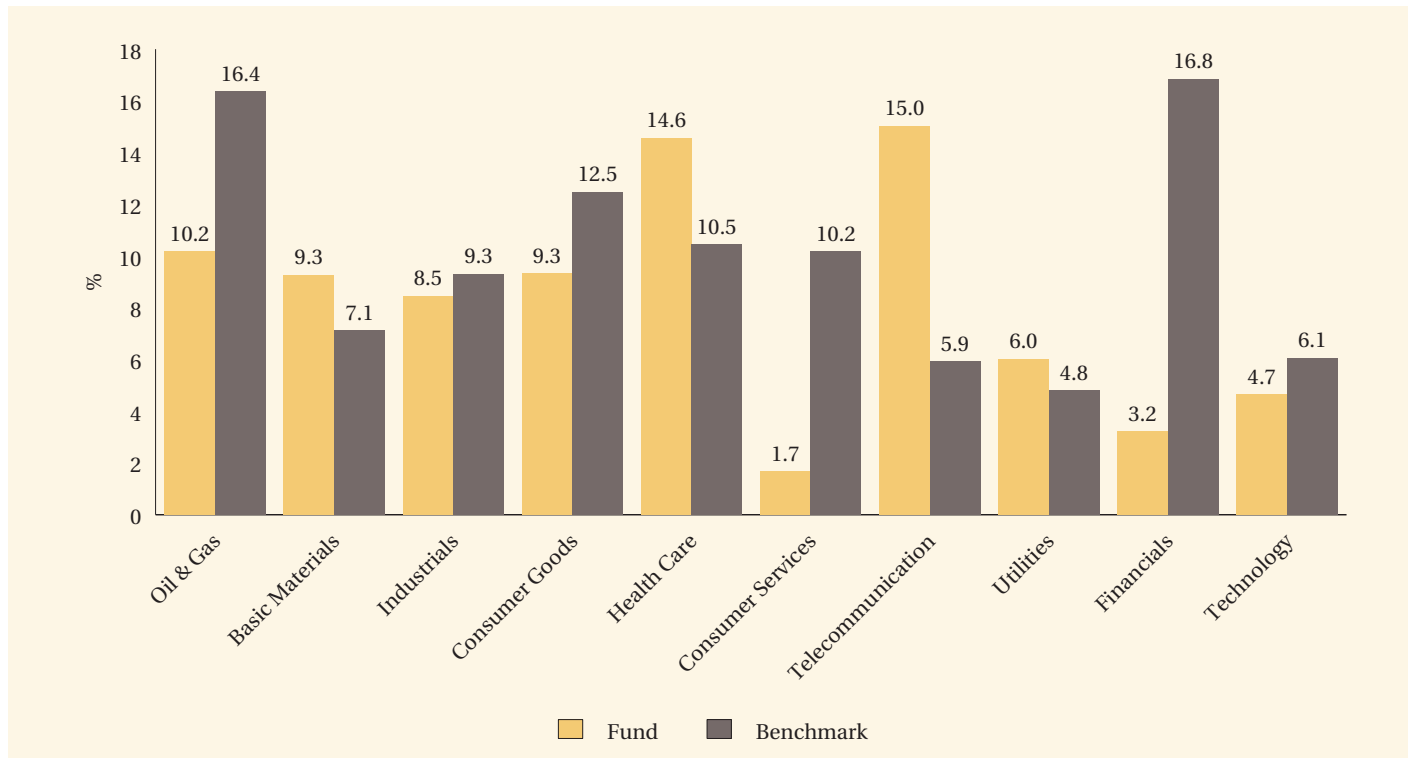
Strategy groups	Representatives from the strategy team, fund managers and research analysts identify global themes and formulate our economic view.
Research team	Global sector analysts, supported by fund managers, identify investment opportunities within the thematic backdrop.
Fund management	Fund managers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

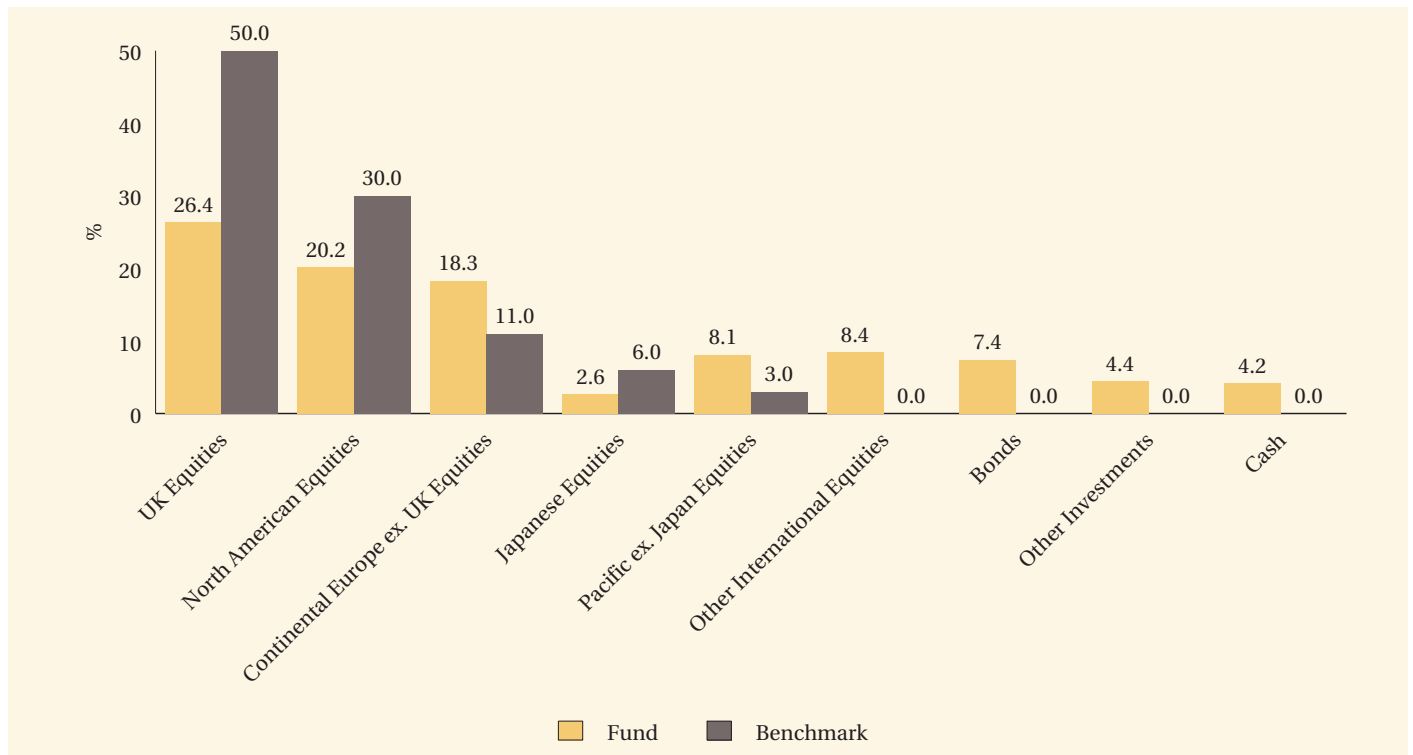
Theme	Factors	Investments
Earth Matters	Environmental issues have moved to centre stage in the minds of the public and policy makers. Current growth trends in the developing world suggest significant additional stress on resources and the environment.	Acciona, Bayer, K&S
All Change	The previously benign 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.	Centrica, Cobham, GlaxoSmithkline, HTC, Microsoft, Reynolds American, Wyeth, no commercial banks in UK or USA, no property.
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.	HTC, Millicom, Sprint Nextel, Tele Norte Leste, Vodafone
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, Petrobras, Devon Energy, XTO Energy, Total

Fund analysis

Equity weightings by industry versus benchmark



Regional and asset class weightings versus benchmark



Source for all charts: Newton, as at 31 March 2009.

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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