



# Newton Phoenix Fund

Investment Report  
First Quarter 2007

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## Discrete Past Performance – Percentage Change

	<b>31/03/06 – 31/03/07</b>	<b>31/03/05 – 31/03/06</b>	<b>31/03/04 – 31/03/05</b>	<b>31/03/03 – 31/03/04</b>	<b>31/03/02 – 31/03/03</b>
Phoenix Fund	<b>3.9%*</b>	<b>17.9%</b>	<b>11.1%</b>	<b>21.0%^</b>	-24.1%^

**^ Performance prior to 11 April 2003 reflects the performance of the Phoenix Fund's holdings prior to restyle**

\* On 14 March 2006, a 'B' Share Class was created. The performance we record after 31 March 2006 is that of the 'B' Share Class. Prior to this date, we record the performance of the 'A' Share Class.

**Source of performance information:** Newton as at 31 March 2007, total return, net of fees, without initial charges, income reinvested net of tax. Figures are based on sterling returns.

## Important performance information

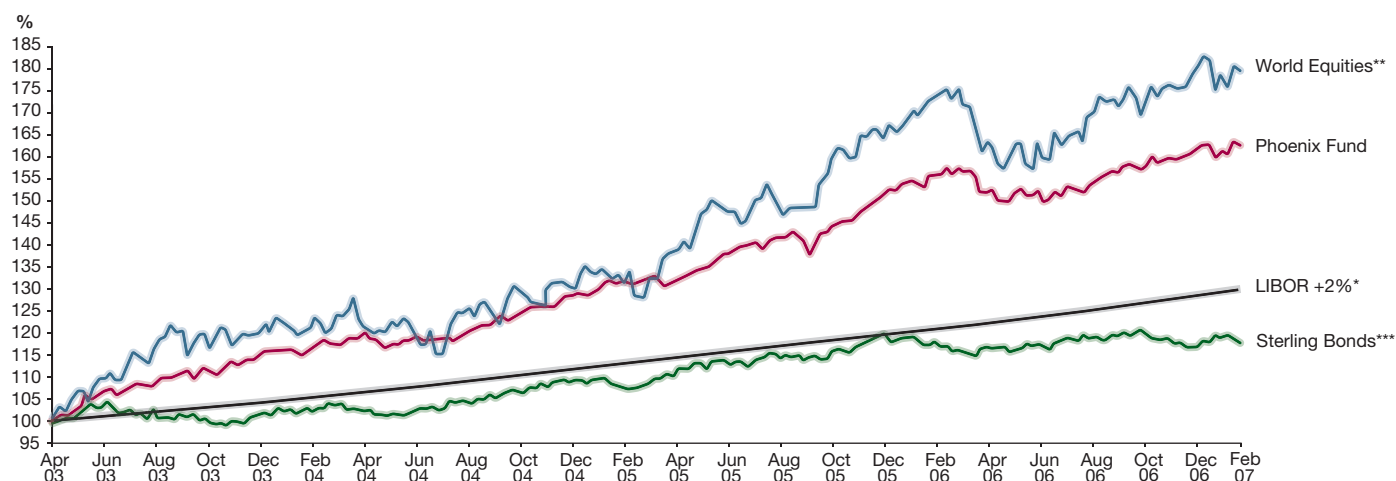
Source: Lipper, bid to bid, net income reinvested. Fund return is after annual charges. The Fund is priced at 12 noon. Past performance is not a guide to future returns. The value of investments and the income from them can fall as well as rise and investors may not get back the original amount invested. The value of overseas securities will be influenced by fluctuations in exchange rates. Part of the Fund may be invested in sub-investment grade bonds that typically have a low credit rating and carry a high degree of default risk, which can affect the capital value of your investment. As the Fund has exposure to hedge funds, gold, private equity and property via publicly quoted transferable securities, there are additional risks associated with these sectors.

# Aim and performance

## Aim

The Phoenix Fund's aim is to achieve long-term growth in excess of cash returns from a balanced portfolio diversified across a range of assets. The benchmark is cash +2% per annum. The Fund is intended to have significantly lower absolute volatility<sup>g</sup> than traditional equity biased funds, but will exhibit volatility relative to its benchmark. The Phoenix Fund was restyled in April 2003 to pursue a 'diversified assets' approach.

Performance data for the period prior to 11 April 2003 should not be seen as indicative of future performance. Performance since restyle is shown below.



## Performance

### Figures since restyle (11 April 2003)

	Latest Quarter	Return	Annualised Volatility <sup>g</sup>	Sharpe ratio <sup>g</sup>	Positive Weeks <sup>g</sup>	Largest loss <sup>g</sup>
Phoenix Fund (after fees):	2.1%	59.7%	4.7%	1.7	69%	-6.1%
Benchmark*:	1.9%	29.1%				
For comparison purposes						
World Equities**	2.3%	76.3%	11.5%	1.0	56%	-12.3%
Sterling Bonds***	-0.7%	17.1%	4.1%	-0.1	57%	-5.3%

\* Benchmark is 1 month LIBOR +2%<sup>g</sup> per annum

\*\* FTSE World (Total Return Index) – price at close

\*\*\* FTA Government All Stocks (Total Return Index) – price at close

<sup>g</sup> See Glossary

Dividend Yield: 1.8% at 31 March 2007 | Last distribution: 0.8955p per unit on 22 March 2007

Fund Size: £103m at 31 March 2007 | Currency: GBP

**Source of performance information:** Newton as at 31 March 2007, total return, net of fees, without initial charges, income reinvested net of tax. Figures are based on sterling returns.

**Source of analysis of volatility of return:** Newton.

## Important performance information

Source: Lipper, bid to bid, net income reinvested. Fund return is after annual charges. The Fund is priced at 12 noon.

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# Comparative performance

## Comparative performance – 11 April 2003 to 31 March 2007 (weekly, total return in £)

	Return	Annualised Volatility	Positive Weeks <sup>6</sup>	Largest Loss
World Equities (FTSE World)	76.3%	11.5%	56%	-10.3%
UK Equities (FTSE All Share)	104.2%	10.2%	61%	-8.2%
UK Gilts (FTA Govt. All Stocks)	17.1%	4.1%	57%	-5.0%
Sub Investment Grade Bonds <sup>6</sup> (Merrill Lynch High Yield 3% constrained)	56.8%	7.0%	58%	-6.4%
Index Linked Gilts <sup>6</sup> (FTA Govt. Index Linked)	26.0%	5.1%	55%	-4.9%
Gold <sup>6</sup>	63.0%	16.1%	54%	-20.3%
Private Equity <sup>6</sup> (Datastream Investment Trusts – Private Equity ex 3i)	134.1%	8.1%	69%	-10.4%
UK Property (Datastream Investment Trusts – Property)	163.9%	8.1%	71%	-6.9%

## Comparative performance – 30 April 2003 to 28 February 2007 (monthly, total return in £)

	Return	Annualised Volatility
Phoenix Fund	57.3%	4.7%
UK Property (Investment Property Databank)	82.5%	3.1%
Funds of Hedge Funds (HFRI Index)	44.8%	7.9%
Average Unit Trust	65.5%	14.6%
UK Inflation	12.1%	–

## Phoenix monthly performance (since April 11 2003)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
<b>2003</b>	–	–	–	1.60%	3.98%	0.86%	1.70%	0.90%	-0.08%	1.86%	0.81%	2.44%	<b>14.92%</b>
<b>2004</b>	-0.06%	1.44%	0.69%	0.39%	-1.03%	1.43%	-0.55%	1.23%	1.85%	0.96%	1.68%	2.04%	<b>10.49%</b>
<b>2005</b>	0.47%	2.02%	0.16%	-0.94%	1.19%	2.91%	2.45%	0.76%	1.77%	-1.51%	2.57%	2.36%	<b>15.10%</b>
<b>2006</b>	3.07%	1.11%	0.96%	0.31%	-3.38%	0.29%	0.40%	0.23%	0.54%	1.69%	0.55%	1.24%	<b>7.11%</b>
<b>2007</b>	0.60%	0.21%	1.25%										<b>2.07%</b>

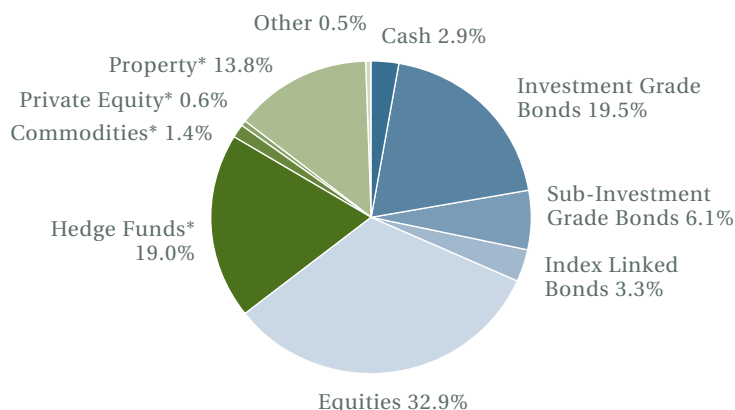
This table shows the performance of the Phoenix Fund Income 'A' Units from 11/04/03 to 31/03/06, then the 'B' Units

Source: Newton as at 31 March 2007. See important performance information on page 2.

<sup>6</sup> See Glossary

# Fund analysis

## Asset class exposure



## Currency exposure

Sterling	80.9%
US Dollar	7.9%
Euro	5.9%
Yen	0.3%
Swiss Franc	1.3%
Other (Far East etc)	3.7%

\*Via publicly quoted transferable securities

## Largest holdings and method of investment

Asset class	Method of investment	Currency hedging <sup>6</sup> of non-sterling instruments	Number of holdings	Largest holdings as at 31 March 2007	
Investment Grade Bonds	Direct	Yes	22	Treasury 4.0% 2009	2.6%
				Nationwide BS CD	2.2%
Sub-Investment Grade Bonds	Direct & Fund & Structured Products	Yes	5	Symphony Eurostoxx 50 Pref 2011	0.7%
			1	Elders (Merrill Lynch) FR Income	0.7%
			7		
Index Linked Bonds	Direct	n/a	2	Treasury 2.5% 2011	2.8%
				Tesco 4% 2016	0.5%
Equities	Direct, Funds & Structured Products	No	79	BP	1.0%
				Vodafone	0.9%
				Elders (Merrill Lynch) Capital Accumulation III	0.7%
				Barclays	0.7%
Hedge Funds	Quoted Funds of Funds	Yes	19 (100+ hedge funds)	Harewood BNP FTSE Summit	0.7%
				Tapestry Investments	1.6%
				AccenciA Debt Strategies	1.5%
	Quoted Hedge Fund		2	Dexion Absolute	1.5%
Commodities	Structured Products	No	3	Harewood BNP Energy Base Metals II	0.6%
				Barclays Agric Structure	0.5%
Private Equity	Investment Trusts	n/a	3	Candover Investments	0.2%
				SVG Capital	0.2%
Property	Investment Trusts & Property Companies & Bond	No	14	UK Commercial Property Trust	1.9%
				ING UK Real Estate	1.6%

Source: Newton as at 31 March 2007. Figures are subject to rounding differences.

<sup>6</sup> See Glossary

# Fund manager's report

The Phoenix Fund enjoyed performance ahead of its target of cash plus 2% in the first quarter as the fund approaches its fourth anniversary.

The year began with a surprise decision by the Bank of England to raise interest rates in the UK to 5.25%, but the main events took place at the end of February and early March. Investors became concerned by events in China (where stock markets fell 9% in one day), Iran (where international relations worsened) and the US (where there was a sharp increase in defaults on mortgages issued to homeowners with low credit ratings).

Investment grade bonds were the subject of rather confused trading, falling in January in response to the base rate decision, before rallying through February and then falling again in the second half of March. Our desire to avoid too much credit risk (the risks to credit spreads seem primarily on the downside) and an inverted yield curve (longer dated gilts yield considerably less than cash) has made it difficult to find attractive investments in this area given our absolute return target. We have, therefore, purchased a number of certificates of deposit which mature during the first quarter of 2008 and give a useful yield enhancement over one year gilts and cash.

Sub investment grade bonds weakened noticeably in the first half of January but have been strong ever since (although they were unsettled by the events of late February and early March). Activity in this asset has been sparse but we would reiterate the comments made in the previous report - we have introduced a number of structured products with bond like characteristics, but with better risk/return profiles. At present, approximately 60% of our exposure is through structured products with the remaining 40% in directly invested sub investment grade bonds.

Index linked bonds barely changed over the quarter and there was no trading activity of any note in this asset.

Equity markets were generally flat in January before performing well for most of February. However, the various issues mentioned above unnerved investors at the very end of February and equity markets fell sharply over a few days. Since that time, equities have generally been positive.

Commodities started the year weakly, falling through most of January before embarking on a sustained rally for the remainder of the quarter with gold and oil showing strong rises.

Private equity enjoyed a very positive start to the quarter rising through January and most of February before falling sharply at the end of February, since when it has rebounded. We have met a number of private equity companies that are considering launching funds onto the market. While our overall cautious tone remains, we will certainly consider any attractive opportunities that arise. However, our overall weighting is unlikely to rise significantly.

Funds of Hedge Funds enjoyed positive months in December of last year as well as January and February of 2007. There continues to be a useful flow of new funds to the market and we have participated in a select few recently. As opportunities arise we will look to reduce the number of holdings in the fund and increase our focus on our preferred Fund of Funds.

Over the quarter, property in the UK was weak, with property investment trusts being slightly ahead of property shares. The number of property shares we have retained is very low, we prefer investment trusts as we believe they give us a return more closely linked to the underlying asset. We have increased our exposure to Continental Europe and it is likely that this process will continue.

Riskier assets have recovered well from the troubles of the end of February. This is the 5th such rally after a setback since the start of the bull run in Spring 2003. It may be that investors are becoming too complacent about the assumed success of a 'buy on dips' strategy. Certainly, it seems that investors have more to worry about now than they did last quarter. However, while liquidity remains plentiful, it seems likely that riskier assets will continue to perform (equity valuations do not look expensive). Against this background, we will continue to maintain an exposure in this area while being more cynical about those assets where liquidity may dry up in the event of any sustained market fall.

The first three months of 2007 have been a good start to the year - we are on course to meet our objective of cash plus 2%, with considerably lower volatility than equities.

Philip Collins  
12 April 2007

<sup>6</sup> See Glossary

# Investment themes

The identification of global themes is a key component of our investment philosophy. Individual economies, industries or companies should not be analysed in isolation. Only by understanding events, trends and competitive pressures worldwide can investment prospects be properly evaluated. We have approximately a dozen investment themes, some of which have changed little over the past few years whilst others are fairly recent additions. A number of these themes are illustrated below with examples of individual holdings.

## Population Dynamics

A nation's demographic profile has profound implications for its ongoing economic development influencing its patterns of growth, consumption and savings, fiscal policy, healthcare regimes and competitive advantage. Industrialised economies have broadly ageing populations while some developing economies have significantly different profiles.

**Beneficiaries:** Allianz, GlaxoSmithKline, Medtronic, Novartis, Smith & Nephew

## 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.

**Beneficiaries:** BHP Billiton, Xstrata, Cemex, Deutsche Post

## Debt and Credit

The transition from high to low inflation and interest rates has triggered a super-cycle of credit growth which has boosted economic activity in the West. It has extended the economic cycle and left households, corporations and administrations increasingly highly indebted. This contrasts with a developing world where households and, increasingly, corporations are significantly less indebted. In sectors such as banking (among others), we favour companies with exposure to the developing world.

**Beneficiaries:** EFG Eurobank, KBC, Standard Chartered, Unicredito, DBS

## 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.

**Beneficiaries:** BP, ConocoPhillips, Occidental, Rowan, Total

<sup>6</sup> See Glossary

# Investment style & other information

The investment style of the Phoenix Fund is based firmly upon diversification. There is diversification between different asset classes as well as within each asset class. The Phoenix Fund focuses on diversification rather than dynamic asset allocation. However, asset allocation decisions form a part of the investment style.

The aim of diversification is to mix different asset classes in such a manner that the Fund is capable of providing a suitable return (the target is 2% above cash) whilst dampening the volatility<sup>g</sup> of that return (the risk<sup>g</sup>). Whilst return is the primary consideration, risk reduction is a strong secondary one. However, investors should be clear that investment in this Fund carries some risk (to generate the additional return) and there will be periods when the Fund price falls, causing underperformance of the benchmark.

Within the asset classes of commodities<sup>g</sup>, cash, investment grade bonds<sup>g</sup> and index-linked bonds<sup>g</sup>, investments are considered suitably homogenous and a limited number of investments are held.

Within equities and sub-investment grade bonds<sup>g</sup>, diversification is key and the majority of holdings will represent less than 1% each of the Phoenix Fund.

Within hedge funds<sup>g</sup>, private equity<sup>g</sup> and property, a limited number of investment vehicles are held. However, each investment vehicle provides the Phoenix Fund with exposure to a large number of underlying investments such that the maximum exposure of the Fund to any one property, hedge fund<sup>g</sup> or private equity<sup>g</sup> investment is less than 1% of the Phoenix Fund.

The Other category includes any assets not covered by the asset classes cited above.

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## Dividend information

Ex dividend dates – 31 January & 31 July

Dividend payment dates – 24 March & 24 September

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## Fee information

The annual management fee of the Phoenix Fund 'B' share class is 0.8% (introduced on 14 March 2006).

The Fund deals daily.

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## Fund management team

Lead Manager: Philip Collins

Management Team: Samantha Arnold, Charles Insley, Gemma Woodward, Helen Bayley, John Hair

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\* Source: Newton 31 March 2007

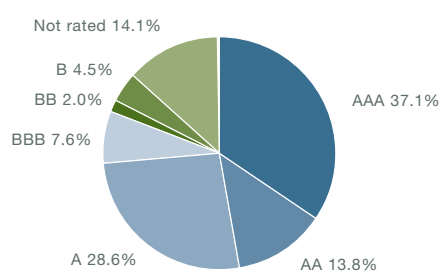
<sup>g</sup> See Glossary

# Appendix 1 Valuation as at 31 March 2007

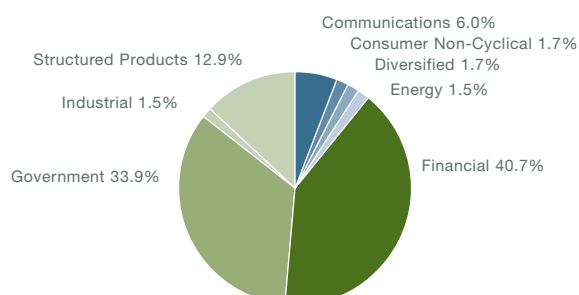
## Bonds

Investment Grade Bonds <sup>6</sup>	Holding	Sub-Investment Grade Bonds <sup>6</sup>	Holding
Alliance & Leicester 5.76% 14/02/07-11/02/08	1.9%	Barclays Bank FTSE Autocall 29/6/2012	0.3%
Barclays Bank 6% 29/06/2049	0.9%	BCM Ireland Pref FRN 15/02/2017	0.4%
CRC Breeze Finance 5.29% 8/05/2026	0.4%	Elders 9 % High Yield Shs	0.7%
Dubai Holding Comm Ops 6% 01/02/2017	0.2%	Elders (Merrill Lynch Intl) Capital Accumulation II	0.5%
European Investment Bank 4.75% 15/02/2036	0.9%	Elders (Merrill Lynch Intl) FR Income	0.7%
France Telecom 7.5% (9%) 4/3/2011	0.5%	Harewood Structured Invest Euro Shield	0.3%
Glencore Finance Europe 6.5% 27/02/2019	0.9%	Kensington Group 9% 21/12/2015	0.5%
HBOS Treasury Services 6.0884% Non Cum Pref	0.9%	Mecachrome Intl 9% 15/05/2014	0.4%
Koninklijke Kpn 8.25% 11/04/2008	0.5%	New City High Yield Trust	0.2%
Merrill Lynch & Co Inc 5.5% 22/11/2021	0.7%	Stena AB 6.125% 01/02/2017	0.5%
Metlife Global Funding I 5.25% 09/01/2014	0.6%	Symphony Eurostoxx50 Pref 05/11/2011	0.7%
Nationwide Bdg Society CD 5.8% 29/01/07 - 25/01/08	2.2%	Symphony Eurostoxx50 Pref 19/02/2013	0.5%
Nationwide Bdg Society FRN 29/01/2049	0.3%	Virgin Media Finance 9.75% 15/04/2014	0.3%
Pacific Life Funding 5.125% 20/01/2015	0.5%		<b>6.1%</b>
Saphir Finance 6.8509% 04/07/2049	1.0%		
SLM Student Loan Trust 5.15% 15/12/2039	0.7%	<b>Index Linked Bonds<sup>6</sup></b>	
South Africa (Republic of) 10% 28/02/2008	0.3%	Tesco PLC 4% Index- Linked 8/09/2016	0.5%
South Africa (Republic of) 10% 28/02/2009	0.3%	Treasury 2.5% Index-Linked 23/08/2011	2.7%
Standard Chartered Bank 8.103% 29/05/2049	0.3%		<b>3.3%</b>
Treasury 4% Stk 7/03/2009	2.6%		
Treasury 4.25% Stk 7/03/2011	2.1%		
Wells Fargo & Co 4.75% 30/11/2010	0.4%		
	<b>19.5%</b>		

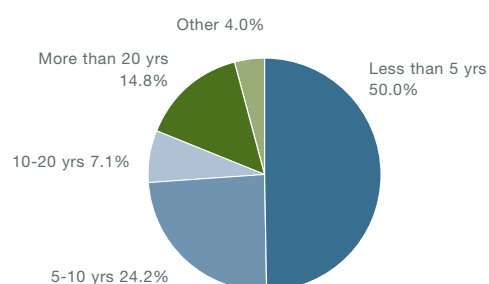
## Bond Credit Ratings<sup>6</sup>



## Bond Sector Weighting



## Maturities



Source: Newton

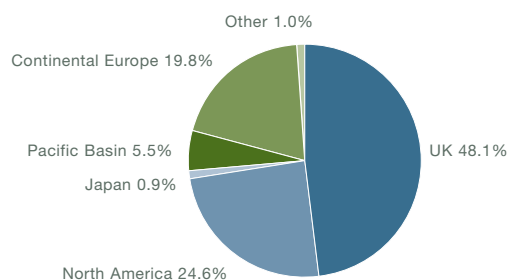
<sup>6</sup> See Glossary

# Appendix 1 (continued) Valuation as at 31 March 2007

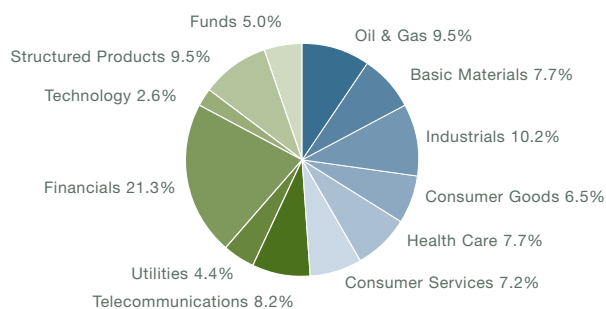
## Equities

	Holding		Holding
ABC Learning Centres	0.3%	HSBC	0.5%
Aberforth Smaller Cos Tst	0.5%	HSBC Infrastructure	0.4%
ABN Amro	0.2%	ICAP	0.4%
Accor	0.3%	Interpublic	0.3%
Air Liquide	0.3%	Irish Life & Permanent	0.4%
Allianz	0.3%	Japan Tobacco	0.3%
Anadarko Petroleum	0.3%	KBC	0.4%
AstraZeneca	0.2%	KT&G	0.2%
Babcock & Brown Public Partnership	0.6%	Lilly (Eli)	0.3%
BAE Systems	0.3%	Medtronic	0.3%
Barclays	0.7%	Millicom Cellular	0.4%
BASF	0.3%	MTN	0.3%
Beckman Coulter	0.4%	National Express	0.3%
BHP Billiton	0.6%	Neste Oil	0.4%
BP	1.0%	Novartis	0.4%
British American Tobacco	0.4%	Occidental Petroleum	0.3%
Cable & Wireless	0.5%	Old Mutual	0.3%
Canadian Pacific Railway	0.2%	Panalpina	0.4%
Canon Inc	0.3%	Prudential	0.4%
Capita Morant Wright Japan	0.6%	Resolution	0.4%
Carlsberg	0.2%	Roche	0.2%
Carrefour	0.3%	Rowan	0.3%
Cemex	0.4%	Royal Dutch Shell	0.3%
Centrica	0.4%	Scottish & Southern Energy	0.4%
Cisco Systems	0.3%	Serco	0.3%
Close Japanese Accel Return Fund II	0.5%	Siam Commercial Bank	0.3%
Cobham	0.4%	Smith & Nephew	0.5%
Companhia Vale Do Rio Dolce	0.5%	Smiths Group	0.4%
Conocophillips	0.3%	Standard Chartered	0.5%
DBS	0.4%	Syngenta	0.3%
Deutsche Boerse	0.3%	Taiwan Semiconductor	0.2%
Deutsche Post	0.4%	Teck Cominico	0.2%
Diageo	0.5%	Telstra	0.2%
E.ON	0.4%	Telstra Rights	0.5%
Ebay	0.3%	Tesco	0.4%
EFG Eurobank	0.3%	Total	0.3%
Elders (Merrill Lynch Intl) Capital Accumulation III	0.7%	Unicredito	0.5%
Elders (Merrill Lynch Intl) Japan Cap Protected III	0.5%	Verisign	0.2%
European Equity Tranche	0.3%	Vodafone	0.9%
Gildan Activewear	0.3%	VT	0.3%
GlaxoSmithKline	0.6%	Wolseley	0.2%
Harewood BNP Paribas Absolute Prog	0.5%	Woong Jin Coway	0.2%
Harewood BNP Paribas Enhanced Gbl Asset Alloc	0.2%	WPP	0.3%
Harewood BNP Paribas FTSE Summit	0.7%	Xstrata	0.3%
		<b>32.9%</b>	

### Equity Regional Weightings



### Equity Sector Weightings



Source: Newton

# Appendix 1 (continued) Valuation as at 31 March 2007

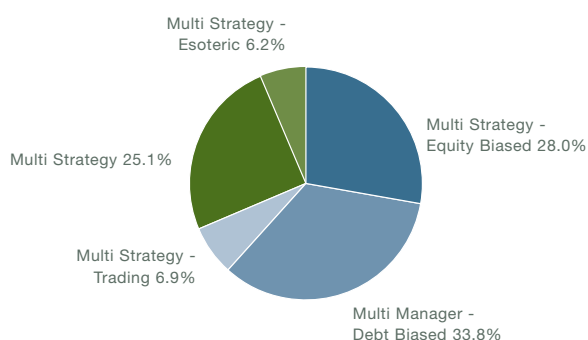
## Fund of Hedge Funds<sup>G</sup>/Hedge Funds Holding

Absolute Return Trust	0.6%
Acencia Debt Strategies C Shares	1.5%
Acencia Debt Strategies	1.3%
Alternative Inv Strategies C Shares	1.2%
Alternative Inv Strategies	0.4%
BH Macro Ltd	0.7%
Close Allblue Fund	1.5%
Close Man Hedge Fund	1.1%
Dexion Absolute Ltd Gbp Npv Shares	1.5%
Dexion Alpha Strategies	1.2%
Dexion Equity Alternative	0.6%
Dexion Trading	0.6%
FRM Credit Alpha Ltd	1.0%
Goldman Sachs Dynamic Opps	1.0%
Gottex Market Neutral Trust	0.9%
HSBC Global Absolute	0.4%
MW Tops	0.6%
New Star RBC	0.4%
Signet Global Fixed Interest C Shares	0.4%
Signet Global Fixed Interest	0.7%
Tapestry Investment	1.6%
	<b>19.0%</b>

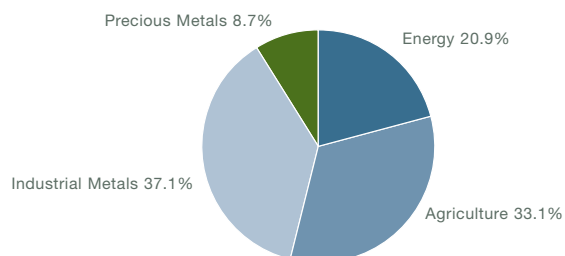
## Commodities

	Holding
Barclays Bank Agric Accel 17/3/11	0.5%
Close Enhanced Commodities Fund	0.4%
Harewood BNP Energy Base Metals II	0.6%
	<b>1.4%</b>

### Fund of Hedge Fund Strategies



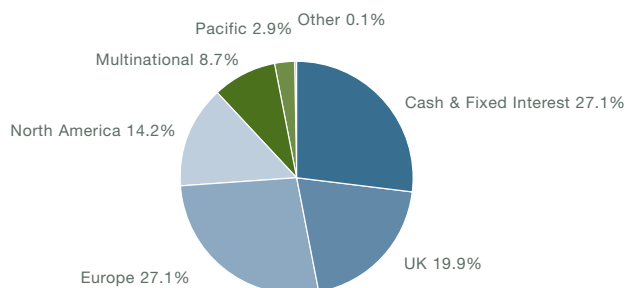
### Commodities



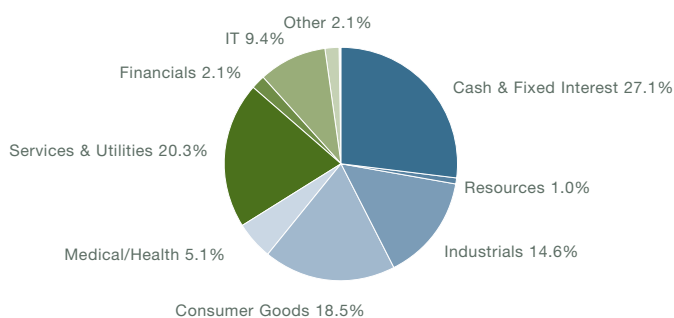
## Private Equity<sup>G</sup>

	Holding
Candover Investments	0.2%
Pantheon Intl Participations	0.1%
SVG Capital	0.2%
	<b>0.6%</b>

### Private Equity Regional Weightings\*



### Private Equity Sector Weightings\*



Source: Newton

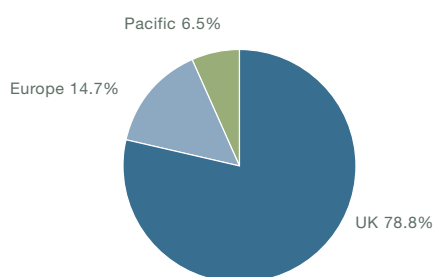
\* Latest available company information – from underlying investments

<sup>G</sup> See Glossary

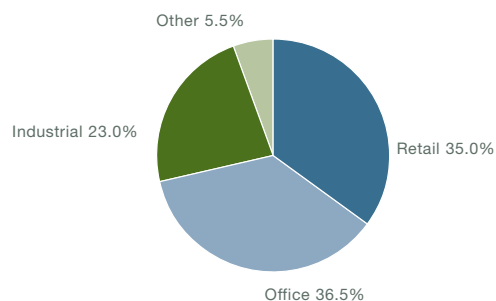
# Appendix 1 (continued) Valuation as at 31 March 2007

Property	Holding
Alpha Pyrenees Trust	0.2%
Atlas Estates	0.4%
Axa Property Trust	0.4%
Dawnay Day Treveria	0.3%
Invista European Real Estate	0.7%
Champion Real Estate	0.3%
Mapletree Logistics	0.6%
Barclays Bank PLC FRN 31/03/2008	0.6%
Derwent London	0.2%
F & C Commercial Prop Tst	0.9%
Hammerson PLC	0.5%
ING UK Real Estate	1.6%
Invesco Property Income Trust	1.5%
Invista Foundation Property Trust	1.4%
Teesland Advantage Property Trust	1.6%
UK Balanced Property Trust	0.7%
UK Commercial Property Trust	1.9%
	<b>13.8%</b>

## Property Regional Weightings\*



## Property Sector Weightings\*



## Other

	Holding
Alternative Asset Opps	0.2%
Ruffer Investment Co	0.3%
	<b>0.5%</b>

## Cash

	Holding
Sterling Capital	2.9%
	<b>2.9%</b>

## Currency Hedging<sup>G</sup>

	Holding
Sterling	2.9%
Euro	-1.4%
US Dollars	-0.8%
South African Rand	-0.6%
	<b>0.1%</b>

Source: Newton

\* Latest available company information – from underlying investments

<sup>G</sup> See Glossary

## Appendix 2 Statistical analysis of returns

This page analyses the weekly movements and volatility<sup>6</sup> of the Fund price and compares these with weekly movements and volatility<sup>6</sup> in bond and equity markets. The Fund Manager's comment on these figures is at the bottom of the page.

### Number of weeks since restyle (11 April 2003): 207

	Phoenix Fund (post restyle)	Equities*	Sterling Bonds**
Sharpe ratio <sup>6</sup>	1.69	0.94	-0.11
Sortino ratio <sup>6</sup>	2.80	1.53	-0.17
Information ratio <sup>6</sup>	1.27	0.77	-0.60
Positive weeks <sup>6</sup>	69%	56%	57%
Average gain in positive weeks	0.57%	1.40%	0.47%
Average loss in negative weeks	-0.51%	-1.14%	-0.43%
Average gain/loss in all weeks	0.23%	0.29%	0.08%
Standard deviation <sup>6</sup> of weekly returns	0.65%	1.59%	0.57%
Annualised standard deviation <sup>6</sup>	4.72%	11.47%	4.09%
Downside deviation <sup>6</sup> (weekly)	0.40%	0.98%	0.36%
Annualised downside deviation <sup>6</sup>	2.86%	7.09%	2.59%
Correlation <sup>6</sup> with equities	0.75		
Correlation <sup>6</sup> with bonds	-0.03		
Largest Loss <sup>6</sup> (peak to trough)	-6.10%	-12.30%	-5.30%
<b>When Equities have risen</b>			
Average gain/loss when equities rise	0.60%	1.40%	-
<b>When Equities have fallen</b>			
Average gain/loss when equities fall	-0.24%	-1.14%	-

**Phoenix Fund:** Bid to bid – 12 noon pricing

\* **Equities:** FTSE World (Total Return Index) – price at close

\*\* **Sterling Bonds:** FTA Government All Stocks (Total Return Index) – price at close

Source: Newton as at 31 March 2007.

<sup>6</sup> See Glossary

## Risk Factors

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. Part of the Fund may be invested in sub-investment grade bonds that typically have a low credit rating and carry a high degree of default risk, which can affect the capital value of your investment. As the Fund has exposure to hedge funds, gold, private equity and property via publicly quoted transferable securities, there are additional risks associated with these sectors.

# Appendix 3 Glossary

## **Bonds**

Tradable debt issued by governments, quasi government bodies or companies. Interest is usually fixed until maturity and paid annually. The bond is repaid by the issuer at maturity.

## **Correlation**

A statistical measure of the degree to which the movement of two variables are related. Correlation of 1 means the two variables move in perfect unison, -1 means they move in completely opposite directions while 0 means the movement of one variable is independent of the other.

## **Credit rating**

A rating awarded by credit rating agencies (Standard & Poor's and Moody's are the best known) after analysing the creditworthiness of the issuer. AAA is the safest rating.

## **Currency hedging**

Much of the hedge fund exposure (for example) is denominated in US dollars, giving a currency risk. To offset this, the Fund sells US dollars against sterling for settlement in the future. The Fund therefore has a debt in dollars and a sterling asset. Movement in currency hedging will offset currency moves affecting the hedge fund investment.

## **Downside deviation**

Standard deviation measures the variability of all returns, downside deviation measures the variability of all returns below zero. The Phoenix Fund aims for low downside deviation.

## **Exchange Traded Fund (ETF)**

A passively managed investment fund that is traded on a stock exchange. In this case, the gold ETF invests in gold bullion. The Fund price moves in line with the gold bullion price.

## **Gold**

The Newton Phoenix Fund invests in a listed exchange traded fund (ETF) that invests in gold bullion.

## **Hedge funds**

Unregulated funds with wide investment powers (for example the ability to hold short positions, ie. sell an asset the fund does not own). There is an enormous number of possible investment strategies. The Newton Phoenix Fund gains its exposure to these funds by investing in listed investment trusts and companies that invest in hedge funds.

## **Index linked bonds**

Bonds with interest and capital repayment linked to inflation.

## **Information ratio**

The relative performance of the Fund divided by the volatility of that relative performance. A figure above 0 shows that the Fund has outperformed the benchmark. For the purposes of this Fund, all information ratios use LIBOR +2% as the benchmark.

## **Investment grade bonds**

Bonds with a credit rating of Baa3/BBB- or better. AAA is the safest rating.

## **Investment trusts**

A company that invests in (for the purposes of this Fund) property or private equity, the investment trust is quoted and traded on a stock exchange.

## **Largest loss**

The largest loss (from peak to trough) suffered by the investment or index. Also known as maximum drawdown. The Phoenix Fund aims for a low figure.

## **LIBOR +2%**

The benchmark for this Fund. LIBOR (London Inter Bank Offer Rate) is a cash interest rate available to large high quality institutions.

## **Positive weeks**

The percentage of weeks (since the restyle of this fund) that saw a rise in the fund or index.

## **Private equity**

Unquoted companies – venture capital (early stage) and management buy outs/ins (established companies).

## **Risk**

In the context of this Fund the variability of returns or volatility. This is measured by standard deviation.

## **Running yield**

A measure of the income stream of a bond – the annual interest rate divided by the price of the bond.

## **Sharpe ratio**

A measure of risk adjusted return. The excess return (in this case, the return above cash) divided by the standard deviation. A higher number suggests a more efficient mix of returns and volatility.

## **Sortino ratio**

A measure of risk adjusted return similar to the Sharpe ratio, the difference being the Sortino ratio uses downside deviation, not standard deviation of all returns. A higher number suggests a more efficient mix of returns and downside volatility.

## Appendix 3 (continued) Glossary

### **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). The Phoenix Fund aims for a low standard deviation of returns.

### **Structured Product**

An investment trust (for the purposes of this Fund) that provides a return based on derivatives (or options) linked to stock market indices. Typically, the investment trust holds a sum in cash to provide capital protection if markets fall with the remainder invested in options to benefit from any market rise. However, many different structures are possible.

### **Sub-investment grade bonds**

Bonds with a credit rating below Baa3 (Standard & Poor's) or BBB- (Moody's). The risk of default or lack of interest payment is higher than for Investment Grade Bonds.

### **US Traded Life Interests Fund**

A fund that obtains its return from the realisation of US life insurance policies purchased in the secondary market.

### **Volatility**

A risk measure, calculated using standard deviation. The higher the figure the more variable the return of an investment.

## **Important performance information**

Past performance is not necessarily 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. Part of the Fund may be invested in sub-investment grade bonds that typically have a low credit rating and carry a high degree of default risk, which can affect the capital value of your investment. As the Fund has exposure to hedge funds, gold, private equity and property via publicly quoted transferable securities, there are additional risks associated with these sectors.

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*A Mellon Financial Company<sup>SM</sup>*

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