

Performance of the Newton Phoenix Fund

The Phoenix Fund was restyled in April 2003 to follow a diversified approach that would generate a return above cash but with lower volatility than equities. Thus far it has achieved that aim. It made double-digit returns in 2003, 2004 and 2005. The gains in 2006 and 2007 have been rather more pedestrian.

The returns of the various different assets contained within the Phoenix Fund are shown below. We have highlighted those assets that have performed particularly well or particularly badly each year.

	2003 (from 11 Apr)	2004	2005	2006	2007 (to 30 Sep)
Equities					
FTSE All Share	23%	13%	22%	17%	6%
FT World (£)	20%	8%	24%	7%	9%
Bonds					
UK gilt index	2%	7%	8%	1%	1%
UK non gilt index	5%	7%	9%	1%	-1%
Sub investment grade bonds (£)	20%	15%	4%	7%	4%
UK index linked gilt index	4%	8%	9%	3%	3%
Property					
FTSE All Share Real Estate	48%	45%	21%	48%	-25%
Property investment trusts	35%	26%	21%	25%	-11%
Property (IPD)	8%	19%	19%	18%	3%
Alternative asset classes					
HFRI Funds-of-hedge-funds Index	10%	7%	8%	10%	8%
Private equity investment trusts	19%	22%	32%	13%	8%
GSCI Commodity Index	20%	17%	26%	-15%	19%
Newton Phoenix Fund	14.9%	10.5%	15.1%	7.1%	4.8%

Source: Newton. Calculation basis: Sterling, bid-to-bid, total return.

In 2003, 2004 and 2005, the fund benefited from the strong performance of equities, property, private equity and commodities and respectable returns from bonds and hedge funds. In 2006, the poor returns from bonds and commodities were counteracted by stronger performances from equities (particularly in the UK), property, hedge funds and private equity, demonstrating the benefits of diversification. In the first nine months of 2007, property has proved a significant drag and commodities (a small part of the fund) is the only asset class to rise significantly.

While we do much to manage risk levels within the Phoenix Fund, one of the greatest issues investors in the fund face is 'regret risk'. Typically, this is regret that performance is not as high as in previous years or that the fund was not more invested in a strongly performing asset (such as commodities this year). Given its asset allocation, the fund can do little to generate excess returns when few assets rise convincingly - the only way to do this is take more risk (which would undermine the investment rationale behind the fund). We do, however, seek to add value through stock selection and some asset allocation changes. Generally, these efforts have been rewarded.

The principal actions we have taken in the last few years are detailed below.

Decisions we got right:

- Reduced exposure to lower quality bonds in 2006
- Reduced exposure to longer dated bonds from 2005
- Reduced exposure to commodities in early 2006 ahead of a fall and then rebuilt exposure earlier this year
- Reduced property exposure from the middle of 2006
- Successfully reduced funds-of-hedge-funds trading at a premium to underlying value and bought those at a discount
- Focussed on equities that benefit from Newton's global thematic views.

Decisions we got wrong:

- Failed to reinvest in longer dated bonds this summer (thus missing the rally)
- Reduced our private equity exposure far too early (this asset only performed badly from the middle of this year).

Discrete Past Performance – Percentage Change

	30/09/02 – 30/09/03	30/09/03 – 30/09/04	30/09/04 – 30/09/05	30/09/05 – 30/09/06	30/09/06 – 30/09/07
Phoenix Fund	19.6% [▲]	11.0%	16.5%	7.0%*	8.5%*

[▲] 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: Lipper as at 30 September 2007, total return, net of fees, without initial charges, income reinvested net of tax. Figures are based on sterling returns.

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