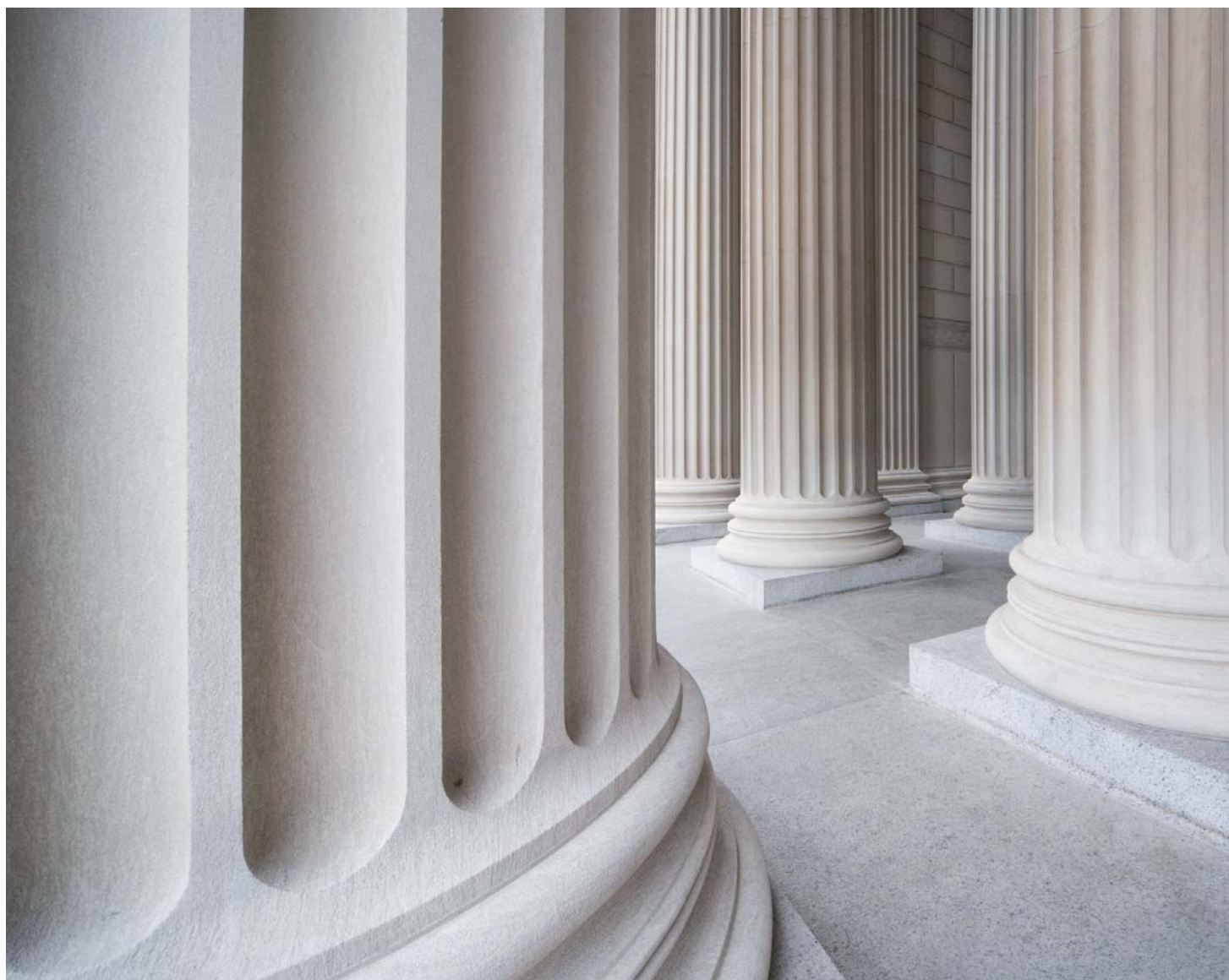


Newton Real Return Fund

Investment Report - Third 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 Real Return Fund has returned 80.7% since relaunch (31 March 2004), which is equivalent to 11.4% per annum. This is an outperformance of 2.6% per annum compared to the fund's benchmark. For more detail on the fund's long-term performance, please refer to page 4.

Prior to 30 June 2009, the Fund was called the Newton Absolute Intrepid Fund.

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. (benchmark), ARC £ Steady Growth, IMA Absolute Return.

Risk profile

Suitable for investors with a medium risk profile.

Fund facts

Fund size (millions):	GBP 809	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:	5.3112p per unit
Base currency:	GBP	ISIN	GB0006780323
Dividend yield:	3.3%	Sedol	0678032

Focus on the latest quarter

Performance over three months

Newton Real Return	10.2%				
1 month £ Libor +4% p.a.	1.1%	ARC £ Steady Growth:	13.3%	IMA Absolute Return	4.9%

Source: Lipper, WM & ARC, as at 30 September 2009. Calculation basis: Sterling, total return, bid to bid, without initial charges, net income reinvested, net of management fees.

Significant transactions

Acquisitions
Sankyo Co. Ltd
Kroger Co.
RSA Insurance Group PLC
Norway (Kingdom of)-6.5% 15/05/2013
Compass Group PLC

Disposals
Norway (Kingdom of)-6.5% 15/05/2013
Telstra Corp. Ltd
Eli Lilly & Co.
Alcatel-Lucent-4.75% Conv Bds 01/01/2011
Sprint Capital Corp-7.625% Bds 30/01/2011

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

Fund manager report

Performance factors

Equity indices, and indeed most risk assets, rallied sharply during the third quarter, benefiting from the surplus liquidity that has been unleashed by unprecedented fiscal and monetary stimulus. The Fund delivered a strong absolute return in this environment, however subdued relative to the market due to the defensive stance of the equity portfolio. Looking forward, we retain a fundamentally cautious outlook. While stimulus injections have undoubtedly steered the global economy away from the brink of depression, we remain sceptical of the V-shaped recovery now discounted in the valuations of many cyclicals, with the persistence of high levels of indebtedness and ongoing rises in unemployment pointing to a sustained period of anaemic demand.

Within the equity portfolio the third quarter was characterised by a broadening of the market rally, which in the second quarter was largely dominated by the banks. Key thematic holdings such as **GlaxoSmithKline** and **VT Group** that had previously failed to participate in the pro risk rally were reassessed by the market and re-rated from the oversold positions where the fund built its holdings. The fund's largest sector exposure, Telecoms, produced strong returns, in particular holdings exposed to emerging markets, which continued to deliver the greatest gains. Notable contributors **Millicom** and **Tele Norte Leste** climbed sharply, benefiting from encouraging operational execution allied to a broader increase in appetite for companies with emerging market exposure. In the developed world Vodafone was the top contributor to fund performance. A strong play on Newton's 'Networked World' theme, **Vodafone** has long been somewhat overlooked, trading on a

valuation which attributes insufficient value to its US business.

In the commodity space the quarter saw an impressive rally in industrial metals sparked by Chinese stock piling which benefited mining holdings in this sector. **Minas Buenaventura**, **Noble Group** and **Newcrest Mining** in particular performed strongly in this environment. Noble Group is a fully integrated commodity trader controlling assets from mines right the way through the supply chain. Based in Singapore, Noble Group is perfectly located to benefit from China's thirst for commodities. The price of gold also gained, rising 10% in sterling terms during the quarter, benefiting the fund's ETFS Physical Gold holding. Unfortunately the commodity rally was not universal with agricultural commodities trading water during the quarter meaning the fund's agricultural commodity exposure via ETFS Agriculture contributed little to performance.

On the bond and currency side our strategic shift out of sterling benefited the fund, most notably the exposure to Norwegian krone, held via Norwegian government bonds and liked because of the country's strong financial position. The currency appreciated 14% against sterling during the quarter. The fund's credit portfolio continued its year long run of strong performance generating a considerable proportion of total fund return. Specific contributors in credit were Imperial Tobacco, Nextel and Ahold.

Review of activity

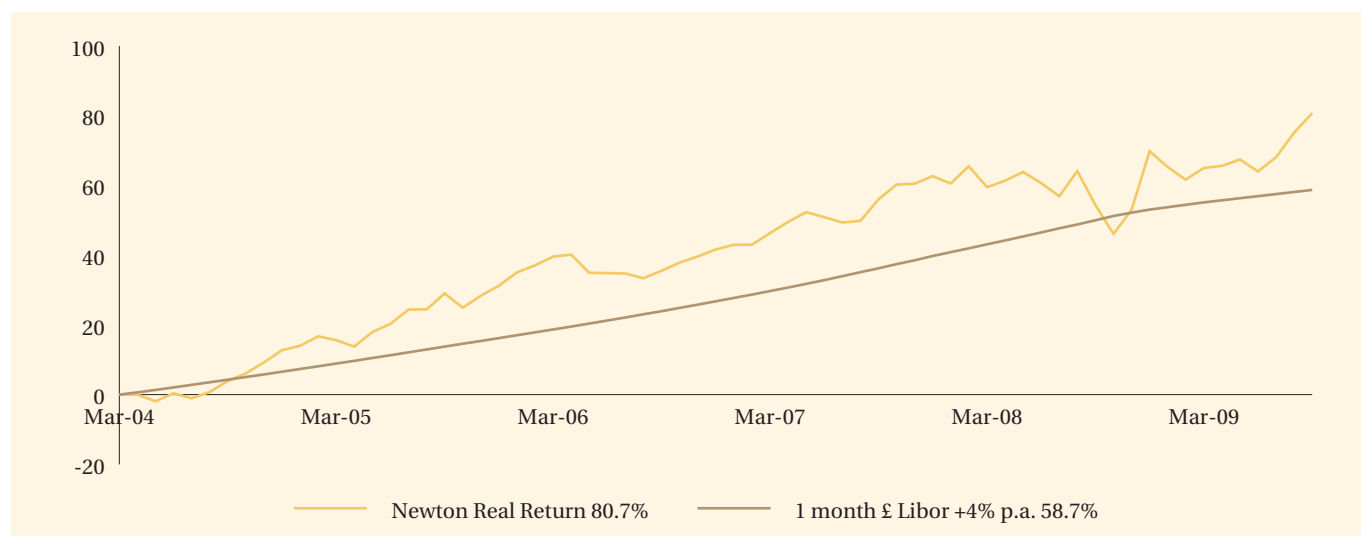
The key change with regard to portfolio construction over the quarter has been investing some of the cash held within the fund into the equity portfolio. This change reflects the significant shift in sentiment which we have witnessed within markets over the past six months. With our outlook still very cautious about the sustainability of the recovery, the composition of the equity portfolio has not changed and remains defensive, however with a collapse of the financial system no longer looking likely and interest rates at historically low levels, a high weighting in cash seemed less appropriate, particularly given the opportunity in specific equities. Elsewhere in the fund the weighting allocated to bonds and commodities has remained largely unchanged.

Within the equity portfolio a notable addition to the fund was Genzyme, a play on Newton's 'Medical Technology' theme. **Genzyme** is one of the few large, profitable, diversified biotechnology companies with a proven ability to develop innovative biotechnology products. We took the opportunity of market concerns about the impact of viral contamination at a key manufacturing site and potential for negative US healthcare pricing to buy the stock at a depressed level. Another new addition **Kroger** was introduced to the fund as a play on the theme 'Low End Spend'. Kroger has a high proportion of own brand products, which is unusual for an American food retailer. A record of delivering strong earnings and regular share buy backs, combined with a cheap valuation, prompted the purchase. Another new addition, **Sankyo**, Japanese manufacturer of pachinko machines (a type of pinball arcade machine) was introduced for the defensiveness of the balance sheet and having been an underperforming stock in an underperforming market. The pachinko industry is larger in terms of revenue than the US casino industry and is one of the most popular forms of entertainment in Japan. Sankyo is the dominant machine manufacturer in this market.

Within the credit portfolio the fund has been starting to recycle higher rated holdings, where much of the initial spread compression has been exhausted into higher yielding issues. Revisiting the original investment case for corporate bonds, in Q4 2008 credit markets were being indiscriminately priced. This presented the fund with the opportunity to get equity-like returns higher up the capital structure and in blue-chip companies where we like the underlying business, a highly desirable outcome in an uncertain environment. Since then market liquidity issues have largely been resolved and yields have fallen considerably to the point where much of the capital gain on offer has been exhausted. We still view the yield on offer from the corporate bond market as a key component of the fund's search for an absolute return however to reduce the influence of government yields on the credit portfolio we have been rotating out of those issues which have moved the furthest and recycling the money into higher yielding issues. For example switching **Nordic Telephone** (rating B) into **BCM** (rating CCC) and **Nokia** (rating A) into **Nextel** (Rating BB).

Long-term performance

Performance since launch



	2000	2001	2002	2003	2004	2005	2006	2007	2008	YTD 2009
Newton Real Return	-	-	-	-	-	16.4	8.0	14.9	4.4	6.4
1 month £ Libor +4% p.a.	-	-	-	-	-	9.0	9.1	10.3	9.5	3.7

Discrete past performance - percentage change

From	30/09/04	30/09/05	30/09/06	30/09/07	30/09/08
To	30/09/05	30/09/06	30/09/07	30/09/08	30/09/09
Newton Real Return	24.2%	5.1%	15.1%	-1.0%	17.0%

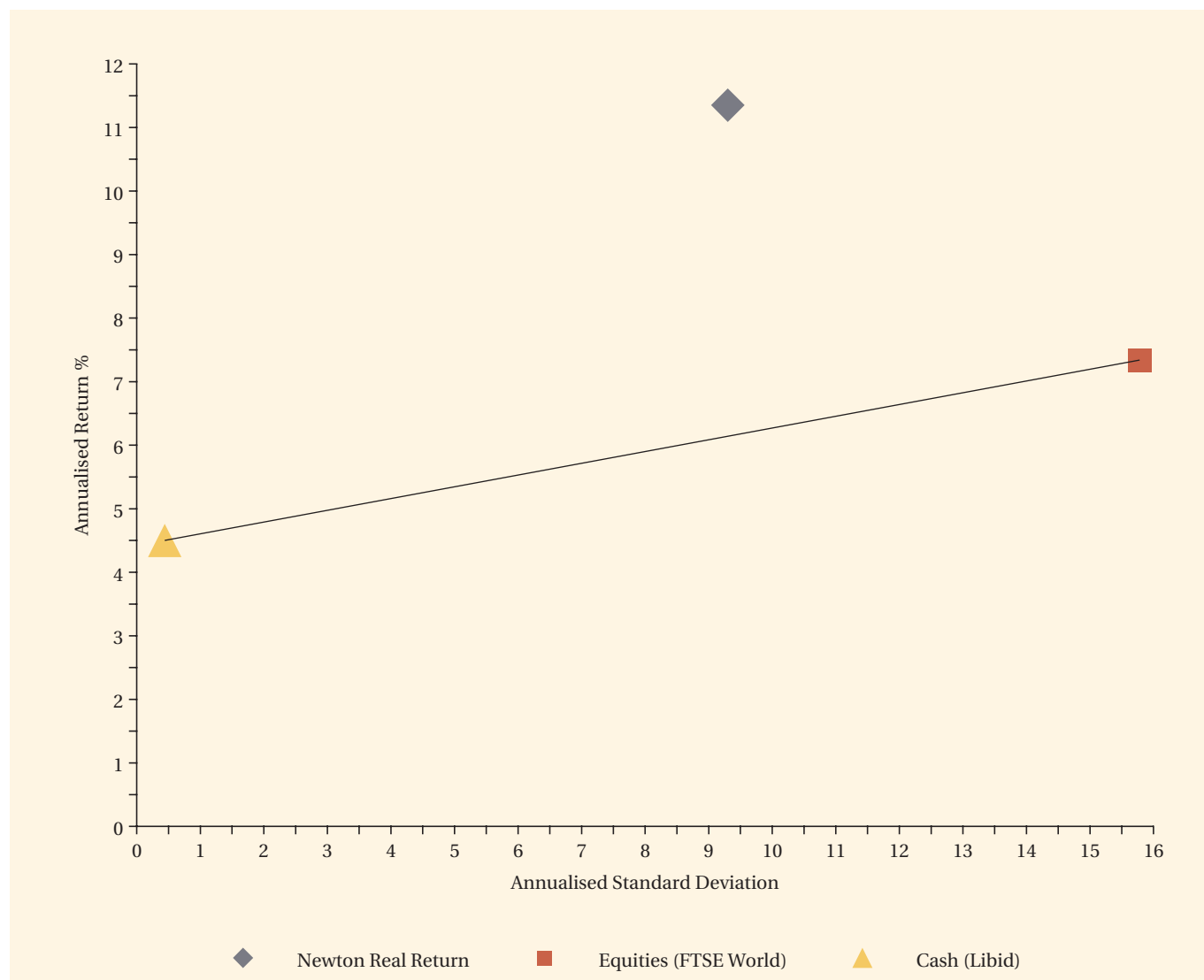
Source: Lipper, WM & Datastream, as at 30 September 2009. Calculation basis: Sterling, total return, bid to bid, without initial charges, net income reinvested, net of management fees.

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 Real Return Fund has given a higher return than cash and equities 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 Real Return	11.4%	9.3%	0.7%
1 month £ Libor +4% p.a.	8.8%		

Source: Lipper, WM & Datastream, as at 30 September 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
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
Developing Economies	The influence of the developing world on the global economy continues to grow, and developing economies ultimately are on a convergence course, in terms of demographics and consumption trends, with the industrialised world. This long-term secular trend will depend on the development of Western-style health and social security systems and will involve significant cyclical influences as well as frictions regarding trade policies.	Noble Group, Bangkok Expressway, Millicom, Tele Norte Leste Participacoes
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.	Acciona, BP, Total, StatoilHydro, Petroleo Brasileiro
More Government	The financial crisis and the recession that has followed in its wake have sharply reversed the trend of reducing the role of the state in the economy, especially in the developed world. With bigger government comes more regulation, higher taxes and the prospect, ultimately, of slower growth and higher economic volatility; local interests will take priority over global. The magnitude of the recent stimulatory policies may have sown the seeds for future inflationary pressures and the unpredictable nature of state intervention increases the risks in all asset classes.	ETFS Physical Gold, Barrick Gold, Index-Linked Bonds Avoid state-controlled banks e.g. RBS, LloydsTSB

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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