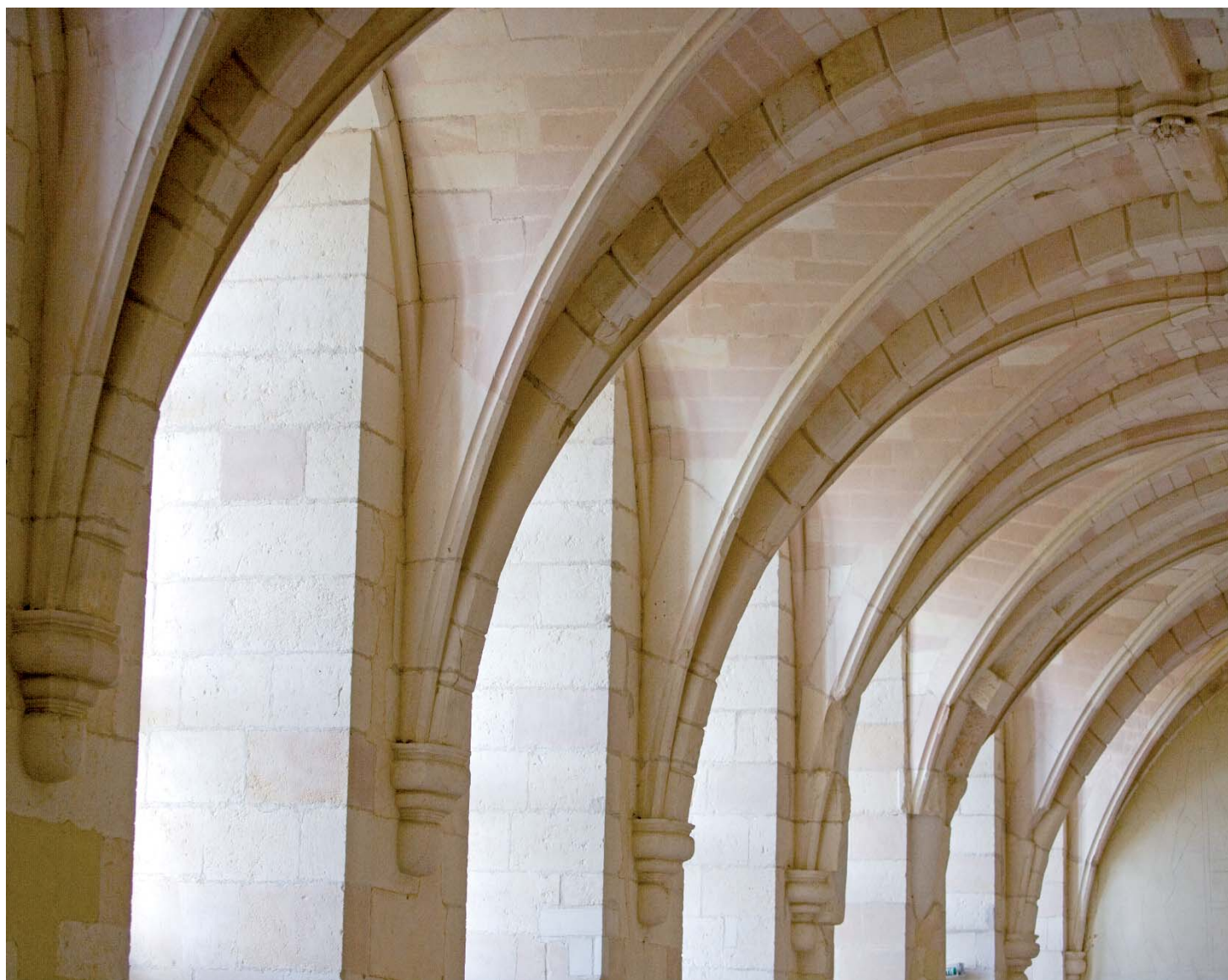


Newton Falcon Fund

Investment Report - Fourth 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 110.8% since launch (13 November 1998), which is equivalent to 6.9% per annum. This is an outperformance of 3.0% 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 93	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:	2.2294p per unit (inc units only)
Base currency:	GBP	ISIN	GB0032585050
Dividend yield:	1.6%	Sedol	3258505

Focus on the latest quarter

Performance over three months

Newton Falcon Fund	6.2%				
Benchmark	4.2%	ARC £ Equity Risk (est)	3.1%	IMA Global Growth	3.6%
FTSE All Share	5.5%	MSCI World ex UK	2.9%		

Source: Lipper, ARC & Datastream, as at 31 December 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	%
Shenguan Holdings Group Ltd	0.42
Barclays PLC (not held)	0.39
Gildan Activewear Inc	0.29
Merck & Co Inc	0.29
Newcrest Mining Ltd	0.19

Negative	%
Rio Tinto PLC (not held)	-0.30
INPEX Holdings Inc	-0.28
Anglo American PLC (not held)	-0.26
Genzyme Corp	-0.24
Sprint Nextel Corp	-0.23

Significant transactions

Acquisitions
Transocean Ltd
Capcom Co. Ltd
Applied Materials Inc.
Panasonic Corp.
Bilfinger Berger AG

Disposals
Time Warner Cable Inc.
Subsea 7 Inc.
China Mobile Ltd
Goldman Sachs Group Inc.
Deutsche Post AG

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

Fund manager report

The final quarter of 2009 brought the year to a close on a high for equity markets. The Fund returned 6.2% after fees, ahead of the benchmark return of 4.2%. The quarter's result was helped by a poor performance from the bank sector, to which the Fund is not heavily exposed, as well as strong performance from a diverse group of stocks including Gildan Activewear, Merck, and Newcrest Mining. The standout performance, however, came from Shenguan Holdings, a Chinese company that we bought at IPO early in the quarter. The company manufactures Western-style sausage skins, has a strong competitive position, and has opportunities to expand production to meet a level of domestic demand that cannot currently be fulfilled without importing more expensive skins. The IPO took place during a lull in the Chinese market when speculators were showing limited appetite for IPOs, and came at a very attractive valuation given the growth prospects. The return from the shares

during the quarter was almost 140%, and we have since taken profits on the holding.

Over 2009 as a whole the Fund returned 28.3% after fees, almost 6% ahead of the benchmark return of 22.6%. The list of stocks that made the biggest contribution is inevitably dominated by those that have recovered sharply after trading at very low levels at the start of the year. Four of the top five returned well over 100%. We managed to increase the holdings in some, though admittedly not all, of these stocks at depressed prices. Emerging market investments played an important role, including two Brazilian utilities, Copasa and Terna, and several telecom stocks. Strong recoveries were not confined to the developing world, however: Sprint Nextel and Gildan Activewear were amongst the five biggest contributors. The oil and gas sector was also a significant source of outperformance as commodity prices rebounded strongly after the

precipitous falls in the second half of 2008, offsetting the negative impact suffered last year. On the other hand the Fund's more limited exposure to the mining sector, excluding gold mining, detracted from performance. The impact on relative performance of not holding shares such as Rio Tinto and Xstrata, which were amongst the more financially leveraged large mining companies, was significant.

Japanese companies featured prominently amongst the purchases we made in the Fund during the latest quarter, reflecting some of the specific opportunities that the very poor performance of Japanese equities has uncovered. We made a timely purchase of Nomura, the investment bank, after the company shocked investors with a very large equity issue to boost its capital ratios. This is not an investment that we intend to hold year after year, but the stock market reaction left the shares very cheap. We think that Nomura's approach to building a bigger European and US business after the demise of several competitors is sensible, and their advisory and capital markets businesses should be strong as companies seek to repair their finances and consolidate in the aftermath of the crisis. Panasonic and Capcom were the other two Japanese shares that we bought during the quarter. Share prices of consumer electronics companies across Asia recovered strongly in 2009, but Japanese competitors such as Panasonic were largely ignored, in part because the strength of the Yen in the latter stages of the crisis has been a headwind to any Japanese exporter. Panasonic has already taken aggressive action to reduce its cost base and has ambitious targets to improve its return on equity. With the shares trading at approximately book value, the upside potential from these initiatives, combined with a continued reversal of Yen strength, could be considerable.

We also purchased a new position in Transocean, the world's largest offshore drilling contractor. The company's fleet is contracted well into the future, we like its ultra-deep water expertise, and we expect pricing to improve once the crisis-induced drop in exploration spending unwinds. We believe that the shares trade on approximately 8 times trough earnings in 2010, and the company is nearing the end of an investment phase following which free cash flow generation will be very strong.

The sales we made during the quarter were generally of shares that we felt were trading at insufficiently attractive valuations, following a strong recovery. Time Warner Cable, for example, had performed well as investors grew more confident in the company's capacity to cut its outstanding debt to a more reasonable level. We sold when the stock reached our target valuation. Goldman Sachs shares have been very strong on the back of a sharp recovery in trading revenues and a less competitive environment resulting from the demise of several investment banks and the capital constraints faced by some of the survivors. The shares are no longer compellingly valued, and we have become increasingly uncomfortable with remuneration policy at the bank and the political and popular attention it is attracting, hence our decision to sell the holding. Subsea 7, which services the oil and gas industry, was sold to fund the purchase of Transocean.

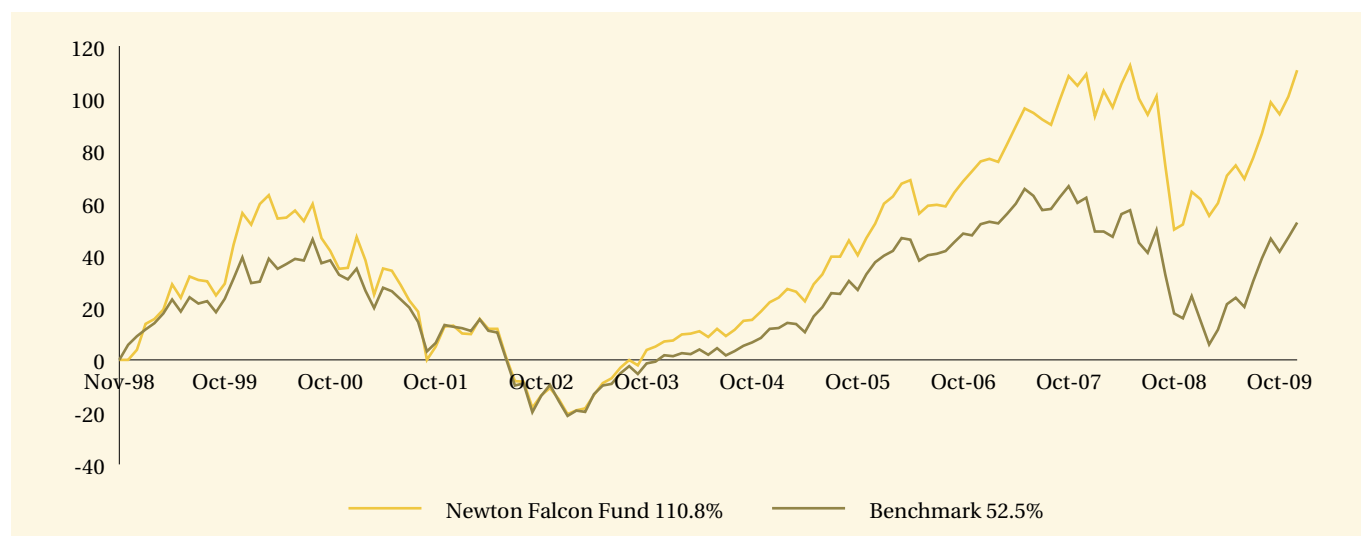
Although the world economy has clearly improved during the last year, the unwinding of credit bubble excesses may yet constitute a significant headwind for years to come. Much of the developed world remains burdened by high levels of debt (and future unfunded liabilities), and deteriorating public finances are calling into question the creditworthiness of sovereign borrowers; central bankers appear to be in denial about their role in fuelling the bubble in the first place, with the result that current policy may simply be storing up further problems for the future; and large distortions are still apparent in exchange rates and world trade. In the Fund we retain a large number of investments that were left behind by the market recovery in 2009, but should provide some stability if this rally peters out. We also retain significant exposure to certain developing economies, which we believe are in a healthier condition than much of the developed world, but are nonetheless ready to sell these investments if their valuation becomes excessive.

Fund management team:

Robert Hay and Ross Ciesla

Long-term performance

Performance since launch



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Newton Falcon Fund	-13.4	-16.4	-24.8	26.0	14.0	24.6	15.7	19.0	-21.5	28.3
Benchmark	-6.0	-13.9	-25.2	20.8	9.9	22.8	10.6	6.6	-23.2	22.6

Discrete past performance - percentage change

From	31/12/04	31/12/05	31/12/06	31/12/07	31/12/08
To	31/12/05	31/12/06	31/12/07	31/12/08	31/12/09
Newton Falcon Fund	24.6%	15.7%	19.0%	-21.5%	28.3%

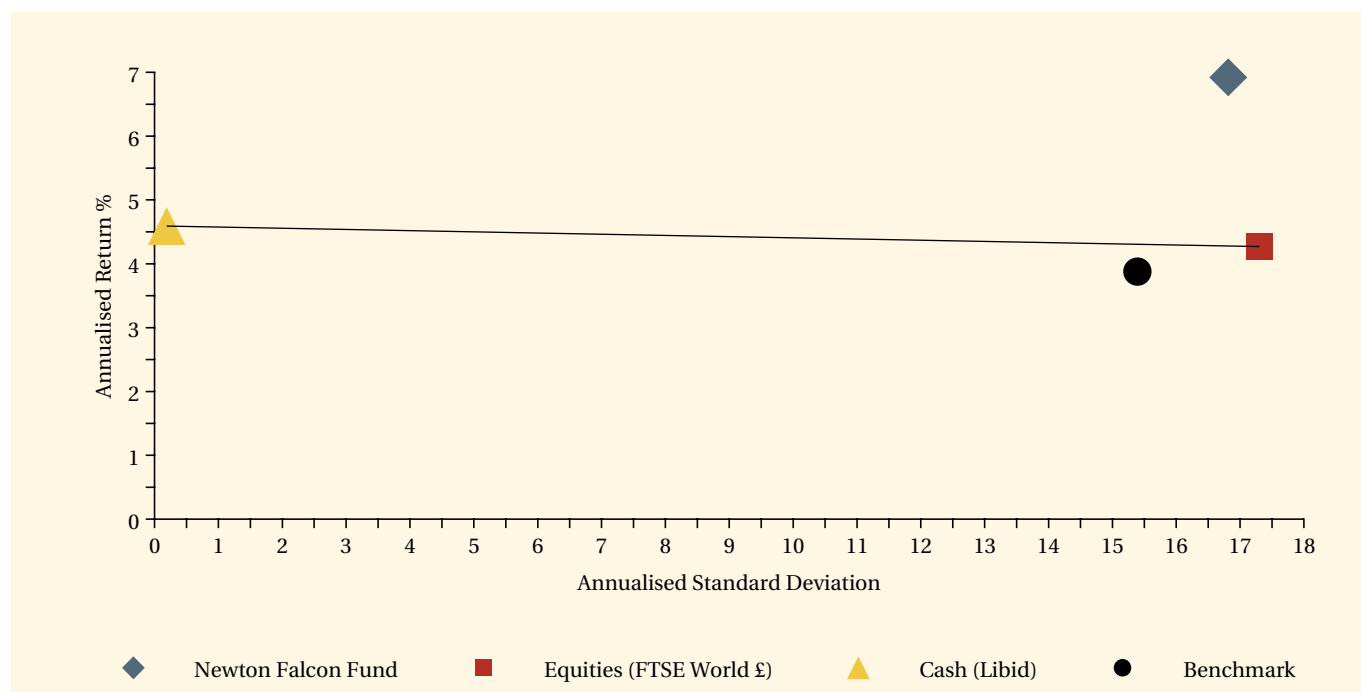
Source: Lipper & Datastream, as at 31 December 2009. Calculation basis: Sterling, total return, bid to bid, without initial charges, net income reinvested, net of management fees.

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	6.9%	16.8%	0.1%
Benchmark	3.9%	15.4%	0.0%

Source: Lipper & Datastream, as at 31 December 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.

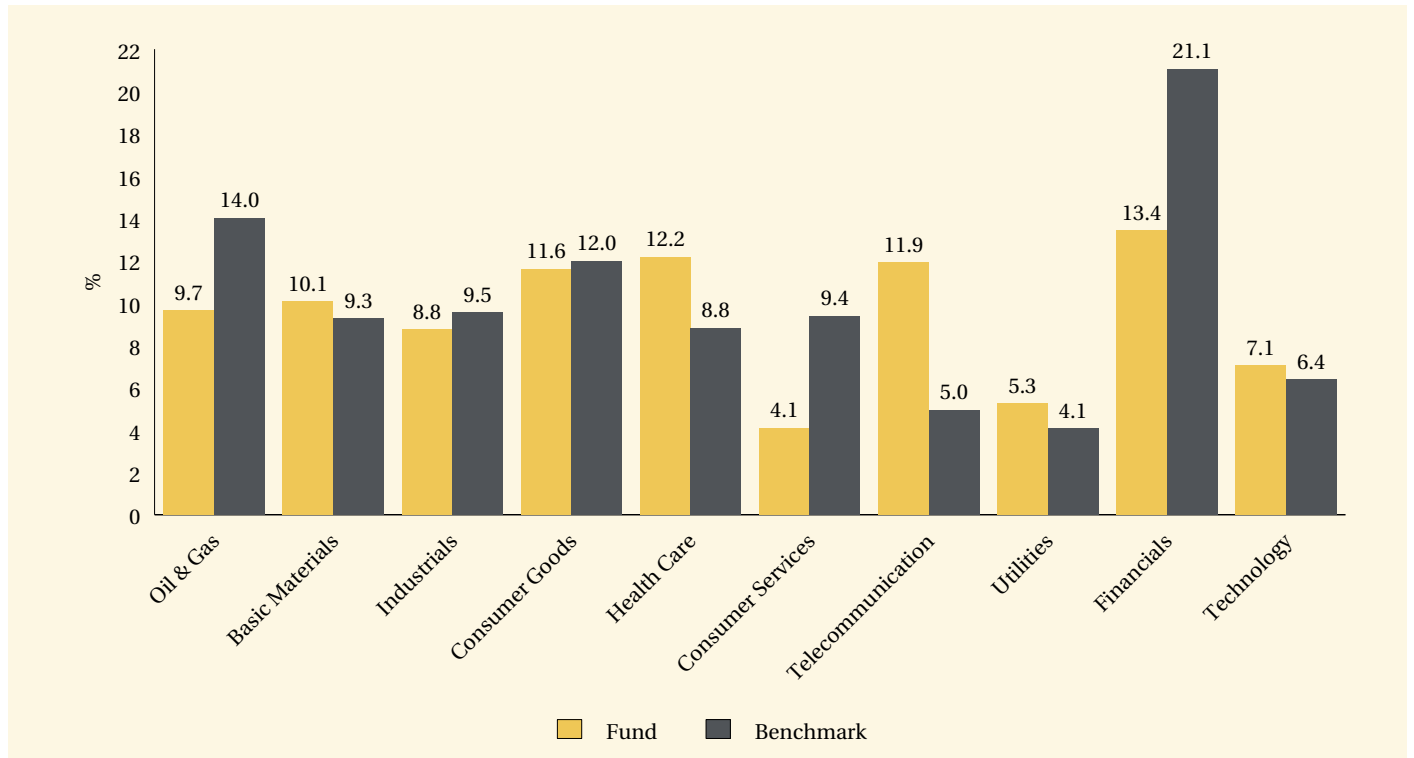
Strategy groups	Representatives from the strategy team, fund managers and research analysts identify global themes and formulate our economic view.
Research team	Global sector analysts, supported by fund managers, identify investment opportunities within the thematic backdrop.
Fund management	Fund managers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

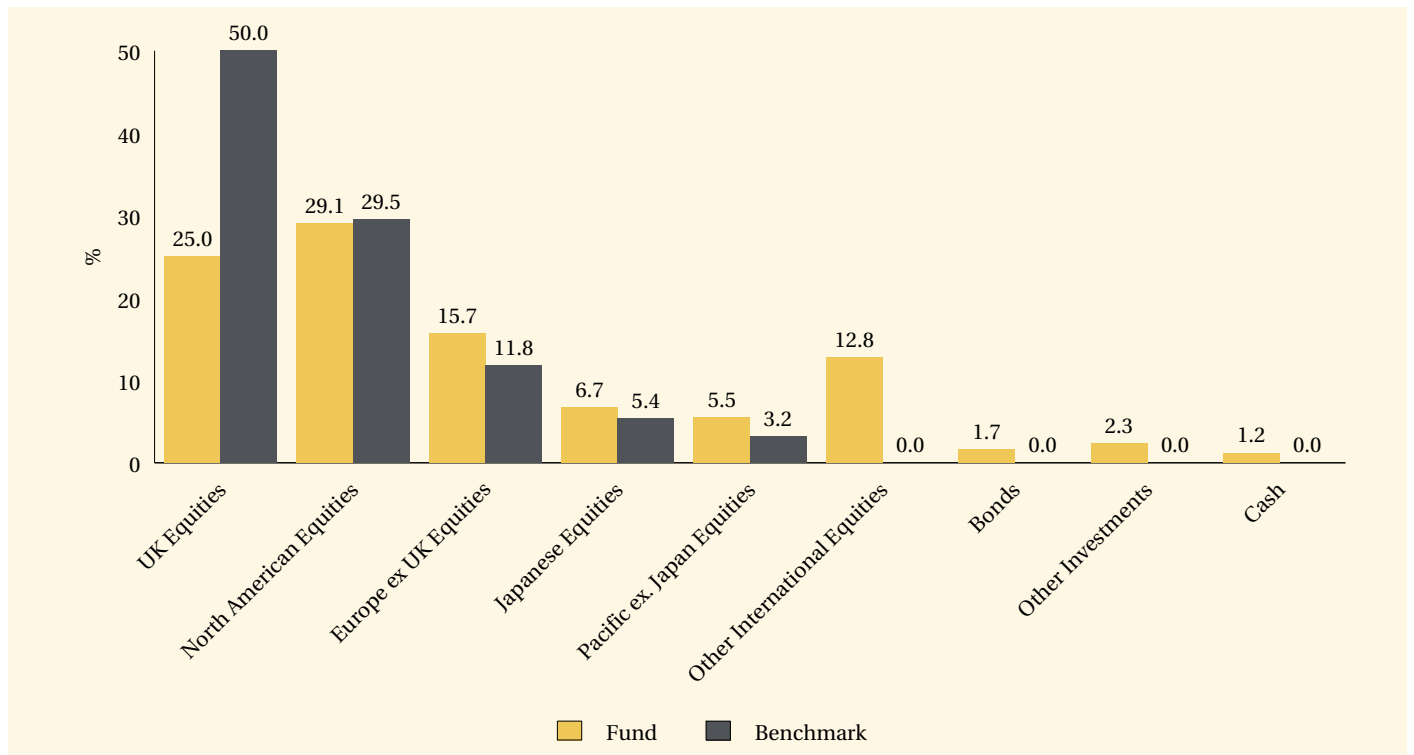
Theme	Factors	Investments
All Change	The previously benign period of stable growth, low inflation, and easy credit, which allowed private sector debt and financial leverage to grow to unsustainable levels (as described in a previous theme, "Becalmed") has come to an end. When assessing investments we assume that access to credit will remain difficult, which favours companies with limited financing requirements and argues against exposure to highly-indebted customers.	Altria, Cable and Wireless, Copasa, Flir Systems, GlaxoSmithkline, HTC, Microsoft, Nestle, limited exposure to western commercial banks
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.	Bangkok Bank, Copasa, Hypermarcas, Inpex, Millicom, Natura Cosmetics, Sands China, Shenguan Holdings
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.	Denbury Resources, Devon Energy, Inpex, Petrobras, Transocean
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.	Newcrest Mining, ETFS Physical Gold

Fund analysis

Equity weightings by industry



Regional and asset class weightings



Source for all charts: Newton, as at 31 December 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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