

Newton Phoenix Fund

Investment Report - Second Quarter 2011

▶ A BNY MELLON COMPANYSM

NEWTON
The Power of Ideas



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Fund information

Long-term track record

The Newton Phoenix Fund has returned 78.7% since relaunch (11 April 2003), which is equivalent to 7.3% per annum. This is an outperformance of 1.6% 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 long-term growth in excess of cash returns from a balanced portfolio diversified across a range of assets. The Fund is intended to have significantly lower absolute volatility than traditional equity biased funds, but will exhibit volatility relative to its benchmark.

Expected characteristics

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

Volatility of return: Medium. Investors can expect to experience fluctuations in the value of their holding, though to a lesser degree than is the case for equity markets.

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

Performance references

1 month £ Libor +2% p.a. (benchmark).

Risk profile

Suitable for investors with a medium risk profile.

Fund facts

Fund size (millions):	GBP 37	Ex dividend dates:	01 Feb, 01 Aug
Annual management charge:	0.8%	Pay dates:	20 Mar, 21 Sep
Total expense ratio:	0.89%	Last distribution:	0.8041p per unit
Base currency:	GBP	ISIN	GB00B0Z86D35
Dividend yield:	1.9%	Sedol	B0Z86D3

Focus on the latest quarter

Performance over three months

Newton Phoenix Fund	1.4%				
1 month £ Libor +2% p.a.	0.7%	ARC Balanced Asset (est)	0.9%	IMA Cautious Managed	0.6%
FTSE W World	0.4%	ML £ Non-Gilt Index £	1.9%	FTSE All Share	1.9%

Source: Lipper, Bloomberg, ARC & Datastream, as at 30 June 2011. Calculation basis: Sterling, total return, bid to bid, without initial charges, net income reinvested, net of management fees.

Significant transactions

Acquisitions
UBS FTSE & S&P Autocall
NB Global Floating Rate Inc Fd
Suzlon Energy Ltd-5% Cnv 13/04/16 USD
BP PLC
United Overseas Bank Ltd

Disposals
DBS Group Holdings Ltd
Absolute Return Trust-Red Ptg Pref Shs GBP
Filtrona PLC
Vodafone Group PLC
Imagination Technologies Group PLC

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

Fund manager report

In the second quarter, the fund rose 1.4% - rather better than similar funds (as measured by the IMA Cautious Managed sector), the fund's cash plus target and world equity markets but less than UK equities. As usual, the performance came with volatility much lower than equities. By way of example, UK equities fell 7.4% from peak to trough within the first half of 2011 while the Phoenix fund fell 'only' 2.3%.

The backdrop was worrying as economic activity softened, inflation picked up, problems in peripheral Europe were pushed out, rather than resolved and the clock is ticking on a low probability of default by the US on its debt. The ECB increased interest rates in Europe but the Fed commented that US rates would remain low for an

extended period. Sterling was steady against the dollar and Euro, but fell against the yen.

Gilts enjoyed a strong quarter despite our misgivings about the value to be gained from lending money to the UK government at rates below inflation (CPI) in many cases. We retained our small weighting in a range of gilts as a 'safety asset' when our riskier assets will suffer. High grade corporate bonds were also strong although financial bonds less so as peripheral European worries resurfaced. In contrast, high yield bonds were broadly flat while index linked bonds were much stronger. We made few changes to our bond holdings – one exception was the switch of our Heidelberg Cement 2019 bond into the 2020 bond, booking a capital profit of 10% or so over 2 ½ years plus the 8.5% income. Broadly we continue to

favour high yield over higher grade corporates and gilts, while looking to build our index linked exposure.

Shares were volatile but mainly ahead over the quarter. Sector performance was generally in our favour with the strongest performance from health care while financials suffered. Regionally, Europe was surprisingly strong while emerging markets fell. Our list of top performers is peppered with worthy names like Glaxosmithkline which rose around 10% as well as Filtrona (+21%), Shenguan (+21%) and Sprint (+16%) while the fallers were much more racy – Huabao (-40%), Hypermarcas (-32%) and Anhanguera (-17%). Perhaps we should not be too hard on Anhanguera as we first purchased it in 2009 at 17 Brazilian reals and it is now 33. We took some good profits in Fresenius, Oil Search, Filtrona, Rossi, HSBC and Vodafone – the latter is unlikely to be a beneficiary of our *networked world* theme. We added to our gold miners – Barrick and Yamana as well as topping up a number of our favoured names such as Glaxo, BP, Novartis and BAT. We continue to focus on higher yielding western shares with strong balance sheets and a sprinkling of more exciting emerging market shares. We also retain some protection using options.

Commodities were weak - particularly agricultural commodities, while precious metals were strong. We made few changes here although the previous paragraph refers to an increase in our gold mining shares which have lagged the price of the metal.

Property, private equity and hedge funds each rose. In property, we reduced Powerlong in Hong Kong and bought Invista European – a fund trading at a big discount to its underlying value that has announced it will sell all the assets and return the cash to shareholders. We reduced hedge funds by selling Absolute Return Trust and getting cash back from two funds that are winding up and returning cash to shareholders.

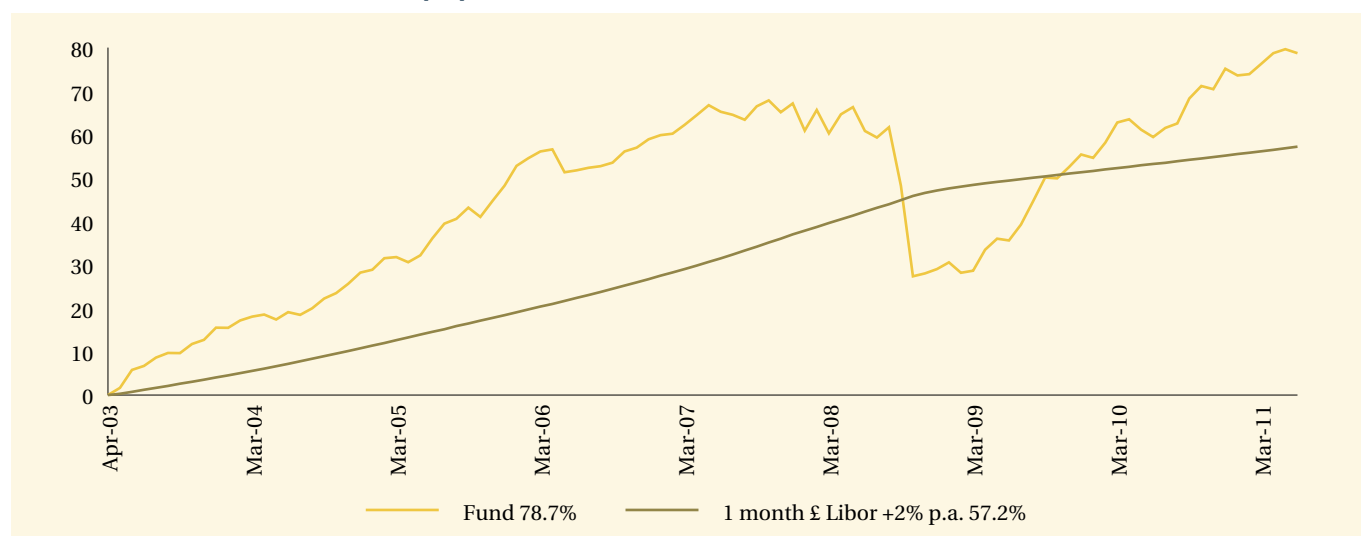
Over the past two and a half years, the fund has risen a very respectable 38.5%, but has not fallen more than 5% between any peak and trough – in contrast UK equities have been much more volatile, falling 22.6% from peak to trough. We aim to maintain this sort of return and volatility profile.

Fund management team:

Philip Collins and Paul Flood

Long-term performance

Performance since launch (%)



	2002	2003	2004	2005	2006	2007	2008	2009	2010	YTD 2011
Fund	-	-	11.0	15.6	7.2	5.2	-22.8	20.5	12.7	2.0
1 month £ Libor +2% p.a.	-	-	6.5	6.9	7.0	8.1	7.4	2.8	2.5	1.3

Discrete past performance (%)

From	30/06/06	30/06/07	30/06/08	30/06/09	30/06/10
To	30/06/07	30/06/08	30/06/09	30/06/10	30/06/11
Fund	8.9	-2.7	-15.7	17.6	12.1

Source: Lipper, Bloomberg & Datastream, as at 30 June 2011. Calculation basis: Sterling, total return, bid to bid, without initial charges, net income reinvested, net of management fees.

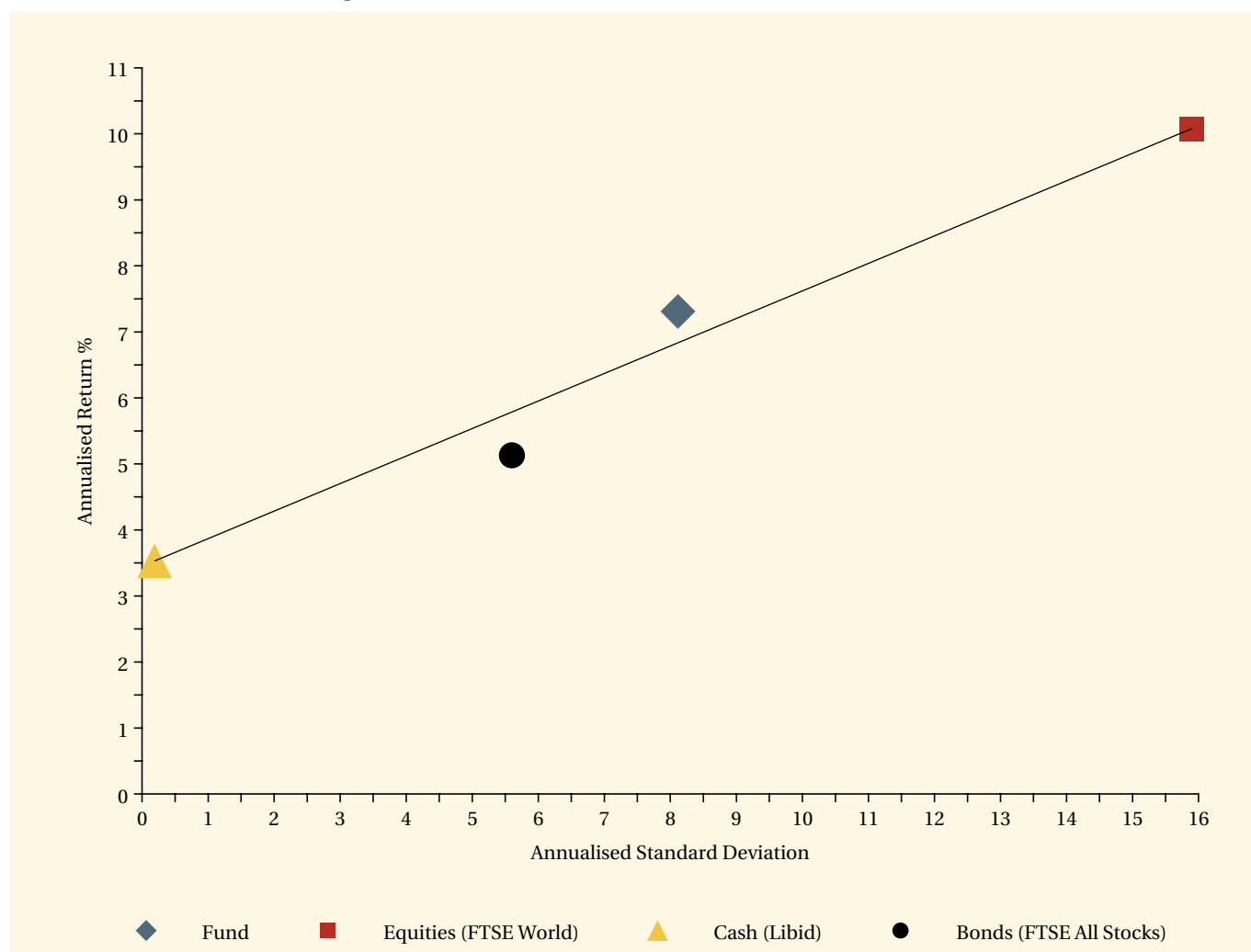
Risk factors

The performance data shown on this report is past performance; as such it is not a guide to future performance.

Investors should remember that unit trusts should be regarded as long-term investments and that the value of units, and the income from them, can go down as well as up due to stock market and movements in exchange rates. When you sell your investment you may get back less than you originally invested. The fund may invest in emerging markets which are, by their nature, higher risk and potentially more volatile than those inherent in established markets. The value of bonds is affected by interest rate fluctuations and by changes in the credit ratings of the underlying issuer of the assets. Sub investment grade bonds, may produce a higher level of income than investment grade bonds, but carry increased risk of default on repayment. There are additional risks associated with specific alternative investments that the fund may hold such as private equity, hedge funds and commodities; these investments may be less readily realisable than others and it may therefore be difficult to sell in a timely manner at a reasonable price or to obtain reliable information about their value; there may also be greater potential for significant price movements.

Long-term performance - risk and reward

Fund return and volatility since launch



This chart shows both return and volatility. The Newton Phoenix Fund has provided an annualised return of 7.3% since relaunch with lower volatility compared to equities. The relaunch date of the fund was 11 April 2003.

Risk and return since launch

	Annualised Return	Volatility	Sharpe ratio
Fund	7.3%	8.1%	0.5
1 month £ Libor +2% p.a.	5.7%		

Source: Lipper, Bloomberg & Datastream, as at 30 June 2011. 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.

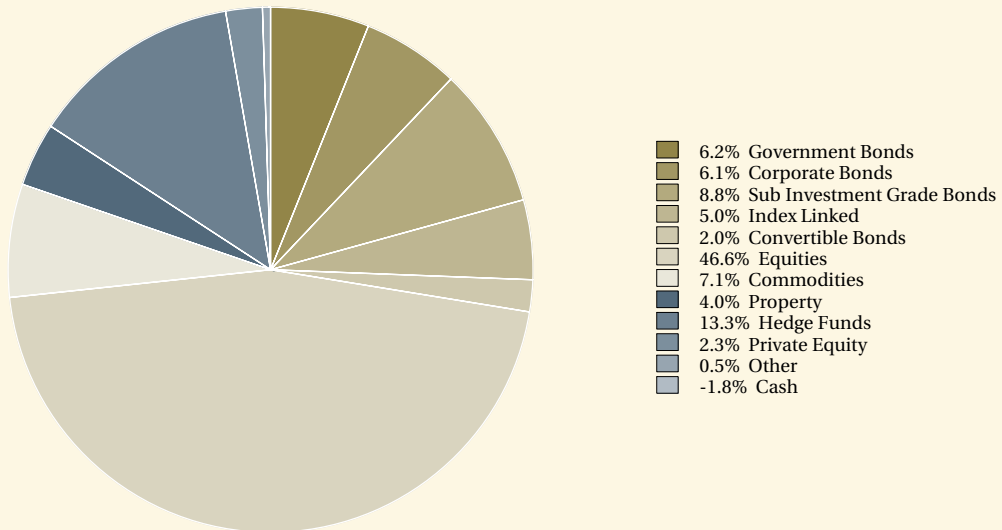
Strategy groups	Representatives from the strategy team, fund managers and research analysts identify global themes and formulate our economic view.
Research team	Global sector analysts, supported by fund managers, identify investment opportunities within the thematic backdrop.
Fund management	Fund managers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

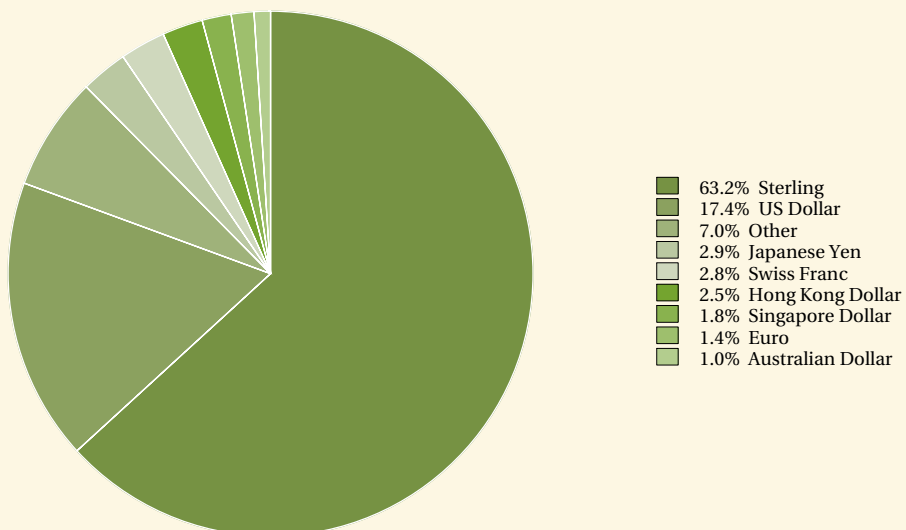
Theme	Factors	Investments
All change	The popping of the credit bubble has marked an end to the era of rapid growth in private sector debt in the developed world. Structurally impaired financial systems and regulatory burdens ensure that credit will be less freely available, and this has profound implications for consumer-driven economies, all asset classes and investment strategies.	British American Tobacco, GlaxoSmithKline, Reynolds American
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 entail 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, Natura Cosmetics, Anhanguera
Networked world	Although networks have already transformed our lives, the trend remains at a relatively early stage. Rapid increases in bandwidth continue to increase networks' range of uses and their interactivity, which in turn is driving productivity gains. The explosive growth of mobile internet, combined with innovations in sensor technology, will generate profound changes in many industries.	Ariba, Opera Software, Sprint Nextel
Medical Technology	Increasingly ageing, affluent and active populations demand products and services that enhance and maintain lifestyles in addition to treating more serious medical conditions. New technologies, materials and services are continually improving the performance of existing products and procedures. Developing world demand for healthcare is rising and, in Western healthcare systems, a key challenge is to improve the efficiency of delivery by adding technology to currently archaic networks.	Align Technology, Novartis, Heartware International

Fund analysis

Asset class weightings



Currency exposure



Source for all charts: Newton, as at 30 June 2011.

Portfolio valuation

Newton Phoenix Fund	100.00
Government Bonds	6.17
UK Treasury Gilt 4.75% 07/12/2030 GBP0.01	1.68
UK Treasury Gilt 2.25% 07/03/2014 GBP0.01	1.02
UK Treasury Stock 5% 7/03/2025 GBP0.01	1.47
UK Treasury Stock 4.75% 7/03/2020 GBP0.01	2.00
Corporate Bonds	6.14
Co-Operative Bank PLC 5.75% Bds 2/12/2024 GBP1000	0.75
Imperial Tobacco Finance PLC 8.125% Notes 15/03/2024 GBP	0.54
Lloyds TSB Bank PLC 6.5% Bds 17/9/2040 GBP1000	0.97
Nationwide Building Society 5.625% Bds 09/09/2019 GBP	0.98
Royal Bank of Scotland Grp PLC 7.5% Bds 29/4/2024 GBP	0.97
Standard Chartered Bank 8.103% Stp Perp 29/5/2049 GBP	0.65
Tesco Property Finance 3 PLC 5.744% Bds 13/04/2040 GBP	0.47
Unique Pub Finance Co PLC 5.659% Bds 30/06/2027GBP 'A4'	0.82
Sub Investment Grade Bonds	8.78
BNY MFM Ltd Newton Gbl High Yld 'X' (Acc)	0.97
Campofrio Food SA 8.25% Bds 31/10/2016 EUR RegS	0.50
CEDC Fin Corp Intl Inc 8.875% Bds 01/12/2016 EUR RegS	0.35
Conti-Gummi Finance BV 7.125% Bds 15/10/2018 EUR RegS	0.59
CRC Breeze Finance SA 5.29% Bds 8/05/2026 EUR50000	0.40
HeidelbergCement AG 7.5% Bds 03/04/2020 EUR1000	0.50
Ineos Finance PLC 9.25% Bds 15/05/2015 EUR RegS	0.52
NB Global Floating Rate Inc Fd Red Ptg Pref Shs GBP	0.89
Origin Energy Finance Limited 7.875% Bds 16/6/2071 EUR	0.54
Phoenix PIB Finance BV 9.625% Bds 15/7/2014 EUR RegS	0.47
Renhe Commercial Holdings 13% Bds 10/03/2016 USD RegS	0.49
Smurfit Kappa Acquisition 7.25% Bds 15/11/2017 EUR RegS	0.40
Stena AB 6.125% Bds 1/02/2017 EUR RegS	0.36
Sunrise Communications Intl 7% Bds 31/12/2017 CHF	0.32
Tullett Prebon Group Holdings 7.04% Bds 06/07/2016 GBP1000	0.52
Unitymedia GmbH 8.125% Bds 1/12/2017 EUR RegS	0.39
Wind Acquisition Finance SA 11.75% Bds 15/07/2017 EUR RegS	0.58
Index Linked	4.95
Anglian Water Services Finance 4.125% I/L Nts 28/7/2020 GBP	1.08
National Grid Gas PLC 4.1875% Index-Linked 14/12/22	1.08
Tesco PLC 4% Idx Lkd Nts 8/09/2016 GBP	0.86
UK Treasury Gilt 1.25% Index-Linked 22/11/2017	1.06

Portfolio valuation

USA Treasury Notes 1.875% TII 15/07/2013 USD100	0.87
Convertible Bonds	1.97
Cable & Wireless PLC 5.75% Cnv Bds 24/11/2014 GBP	0.54
China Green (Holdings) Ltd 3% Cnv Bds 12/04/2013 CNY	0.42
Interpublic Group of Companies 4.25% Cnv Bds 15/3/2023 USD	0.37
Suzlon Energy Ltd 5% Cnv Bds 13/04/2016 USD	0.65
Equities	46.58
3I Infrastructure PLC	0.51
Accenture PLC	0.44
Advanced Info Service PCL	0.64
Align Technology Inc	0.33
Altria Group Inc	0.55
Anhanguera Educacional Part SA	0.46
Annaly Capital Management Inc	0.50
Apple Inc	0.41
Ariba Inc	0.31
Associated British Foods PLC	0.50
Bangkok Bank PCL	0.51
Barrick Gold Corp	0.92
Bayer AG	1.02
BG Group PLC	0.36
BHP Billiton PLC	0.82
Biotech Growth Trust PLC	0.36
BP PLC	0.93
British American Tobacco PLC	0.87
Cable & Wireless Comms PLC	0.46
Camelot Information Systems ADR (Rep 4 Ord Shs)	0.25
Centrica PLC	0.76
China Mobile (Hong Kong) Ltd	0.61
Circle Oil PLC	0.21
Cobham PLC	0.38
Don Quijote Co Ltd	0.34
eBay Inc	0.54
Elders (Merrill Lynch Intl) Japan Cap Protected III 17B	1.11
Elders (Merrill Lynch Intl) 9% High Yield Shs Cls 24A	0.75
Elders (Merrill Lynch Intl) Floating Rate Income Shs 24C	0.53
EMC Corp	0.31
Energy Development Corp	0.48
Filtrona PLC	0.49

Portfolio valuation

FTSE 100 Index Jul11 5600 (Put Option)	0.01
GlaxoSmithKline PLC	1.03
HeartWare International Inc	0.36
HICL Infrastructure Co Ltd	0.99
Hitachi Construction Machinery	0.32
HSBC Holdings PLC Ord USD0.50 (UK Reg)	0.28
Huabao Intl Holdings Ltd	0.16
Hypermarcas SA	0.36
ICAP PLC	0.62
INPEX Holdings Inc	0.63
Intl Public Partnership Ltd	1.05
Jain Irrigation Systems Ltd	0.39
Japan Tobacco Inc	0.61
Jardine Lloyd Thompson Group	0.51
John Laing Infrastructure Fund	0.99
Komatsu Ltd	0.42
L'Oreal SA	0.56
Larsen & Toubro Ltd	0.34
Lukoil Oil Company Spons ADR (Rep 1 Ord RUB0.025)	0.40
Man Wah Holdings Ltd	0.31
Mosaic Co	0.50
MTN Group Ltd	0.52
Natura Cosmeticos SA	0.26
Newcrest Mining Ltd	1.01
Nielsen Holdings N.V.	0.47
Noble Group Ltd	0.37
Novartis AG	1.03
Opera Software ASA	0.32
Pandora A/S	0.33
Parexel International Corp	0.30
Petroleo Brasileiro SA Spon ADR (Rep 2 Prf Shs)	0.87
Reynolds American Inc	0.45
Roche Hldgs AG	1.02
Royal Bank of Scotland Grp PLC FTSE GBP Inc Autocall Certs	1.07
Sanofi EUR2 (French Listing)	0.43
Scottish & Southern Energy PLC	0.95
Serco Group PLC	0.30
Shenguan Holdings Group Ltd	0.59
Societe Generale Acceptance NV 0% FTSE Auto-Call 22/03/17 GBP	1.12
Sprint Nextel Corp	0.72

Portfolio valuation

Standard Chartered PLC	0.75
Statoil ASA	0.51
Syngenta AG	0.44
Taiwan Semiconductor Manufact	0.31
Tele Norte Leste Participacoes	0.53
Telekomunikacja Polska SA	0.49
Toyota Motor Corp	0.53
UBS AG Jersey 0% FTSE & S&P Autocall 1/6/17	1.00
United Overseas Bank Ltd	0.54
Yamana Gold Inc	0.41
Yingde Gases Group Company Ltd	0.36
Commodities	7.08
Barclays Bank PLC 0% Protect Agric 2 20/10/2014	1.75
ETFS Physical Gold 0% Secured Note (USD)	2.47
ETFS Physical Platinum 0% Secured Note (USD)	0.91
Source Physical Markets PLC Secured Gold Linked Note (USD)	1.96
Property	3.97
F&C Commercial Property Trust	0.41
Hongkong Land Holdings Ltd Ord USD0.10 (Singapore Reg)	0.53
Invista European Real Est Tst	0.44
Link Real Estate Inv Trust	0.21
Mapletree Logistics Trust	0.87
Multiplan Empreendimentos Imob	0.25
Powerlong Real Estate Holdings	0.27
UK Commercial Property Tst Ltd	0.99
Hedge Funds	13.30
BH Global Limited	3.12
BH Macro Ltd	2.05
Bluecrest Allblue Fund Ltd	2.22
CQS Diversified Fund Ltd	0.98
Dexion Alpha Strategies Ltd Ord NPV (Assent to Cash 2011)	0.01
Dexion Trading Ltd	2.12
FRM Credit Alpha Ltd	0.66
NB Distressed Debt Inv Fd Ltd	0.99
Signet Gbl Fxd Inc Strategies	1.16
Private Equity	2.29
Ashmore Gbl Opportunities Ltd	1.44
Oakley Capital Investments Ltd	0.85

Portfolio valuation

Other	0.55
Societe Generale Acceptance NV 0% UK RPI Lkd Nt 17/03/14 GBP	0.55
Cash	-1.78

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.

Issued by the Investment Adviser, Newton Investment Management Limited (NIM). The Newton Phoenix Fund is an authorised unit trust operated by BNY Mellon Fund Managers Limited (BNY MFM). Registered Office for NIM and BNY MFM: BNY Mellon Centre, 160 Queen Victoria Street, London EC4V 4LA. Registered in England No. 1371973 (NIM) and No. 1998251 (BNY MFM). NIM and BNY MFM are authorised and regulated by the Financial Services Authority.

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