Newton Phoenix Fund

Investment Report - Fourth Quarter 2011

A BNY MELLON COMPANY℠

NEWTON
The Power of Ideas

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Fund information

Long-term track record

The Newton Phoenix Fund has returned 72.7% since relaunch (11 April 2003), which is equivalent to 6.5% per annum. This is an outperformance of 1.0% 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 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 30	Ex dividend dates:	01 Feb, 01 Aug
Annual management charge:	0.8%	Pay dates:	20 Mar, 21 Sep
Total expense ratio:	0.97%	Last distribution:	1.4804p per unit
Base currency:	GBP	ISIN:	GB00B0Z86D35
Dividend yield:	2.1%	Sedol:	B0Z86D3

Focus on the latest quarter

Performance over three months

Newton Phoenix Fund	2.2%				
1 month £ Libor +2% p.a.	0.7%	ARC Balanced Asset (est)	2.7%	IMA Mixed 20-60% Shs	2.8%
FTSE W World	7.7%	ML £ Non-Gilt Index £	2.4%	FTSE All Share	8.4%

Source: Lipper, Bloomberg, ARC & Datastream, as at 31 December 2011. Calculation basis: Sterling, total return, bid to bid, without initial charges, net income reinvested, net of management fees.

Significant transactions

Acquisitions	Disposals
ETFS Physical Gold 0% Secured Note (USD)	RBS Grp PLC 7.5% Bds 29/4/2024
Severn Trent Water Utils PLC 6% 22/01/18	Societe Generale FTSE Auto-Call 22/03/17
UK Treasury Gilt 1.125% Idx-Linked 22/11/37	UBS FTSE & S&P Autocall 1/6/17
JPMorgan Structured Products 15/01/18	DNB ASA
F&C Commercial Property Trust Ltd	Sprint Nextel Corp.

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 final quarter of the year, the fund rose by 2.2%, reducing the fall in 2011 to 1.4%. Any fall in value is disappointing although the backdrop was unhelpful with most real assets falling although gilts rose. In terms of volatility, the fund fell 8.0% from peak to trough in 2011, well below the equity market peak to trough fall of 18.2% (FTSE All Share).

The final quarter of 2011 provided a tumultuous end to an extraordinary year, in which the world awoke to the reality that the unprecedented levels of debt built up in the Western world needed to be reduced. The lengthening roll call of deceased despots – Osama Bin Laden's name was added to those of Muammar Gaddafi and Kim Jong-il towards the end of the year – may, superficially, have appeared to make the world a safer place, but financial markets remained capricious and volatile.

Most prominent among the challenges was continued uncertainty about the eurozone sovereign debt crisis, and in particular the persistent failure of authorities to tackle it effectively. The full implications of the crisis continue to unfold, but already it has caused a significant reshaping of European politics. Following earlier changes of administration in Ireland and Portugal, unelected technocrat governments were appointed in Greece and Italy in November, and the UK's veto of a European Union-wide treaty in December seemed likely to alter fundamentally the country's relationship with the rest of the continent.

UK government bonds (gilts) continued their rise in the fourth quarter, a move rather at odds with the rebound in equity markets. In the previous quarter,

gilts rose as equities fell, reflecting investors' risk aversion. As previously discussed, we see little value in gilts that offer a return below inflation and our exposure here remains limited, acting primarily as a hedge against falling risk assets rather than as a return seeking asset. We find corporate bonds more attractive and purchased bonds issued by Severn Trent and Anglo American which yield more than gilts - almost 2% and 3% respectively. Higher quality corporate bonds rose a little in the fourth quarter. We have discussed before our intention to add to our index linked positions and weakness in October gave us an opportunity to buy two index linked gilts. Since their purchase these bonds have performed particularly well. Lower grade bonds performed well in the period, but we made no major changes to this element of the fund.

Equities enjoyed a strong final quarter, notably US shares which managed a double digit rise to end 2011 ahead – the only major market to do so. Unsurprisingly, European, Far Eastern and emerging markets performed worst over 2011, all ending down more than 10%, while UK equities fell 'only' 3.5%. Financials and miners were the worst performing sectors while consumer goods (including a particularly good return from tobacco stocks) and healthcare performed best in 2011. Higher turnover has been discussed in previous reports, but this was a quieter period, with reductions in our infrastructure funds which had performed in a very steady and positive manner and sales of DNB Nor, Sprint, Toyota and Noble Group which had been rather less impressive, but equally had been smaller holdings. Overall, equity exposure was reduced and we remained active in the options market to protect against equity market falls.

Oil led commodities higher in the final quarter although gold had a very poor December (we added to our physically backed exchange traded fund in that month). Both gold and oil were notably higher over 2011. The fund's exposure is primarily to gold which did well and rather less in agricultural commodities which fell over the year. Although UK commercial property rose in 2011, property shares fell, as did private equity and hedge fund investment trusts. The fund's exposure to property and private equity remains very low and we trimmed hedge fund exposure by crystallising welcome profits on Bluecrest Allblue and BH Macro (which rose 23.6% in 2011).

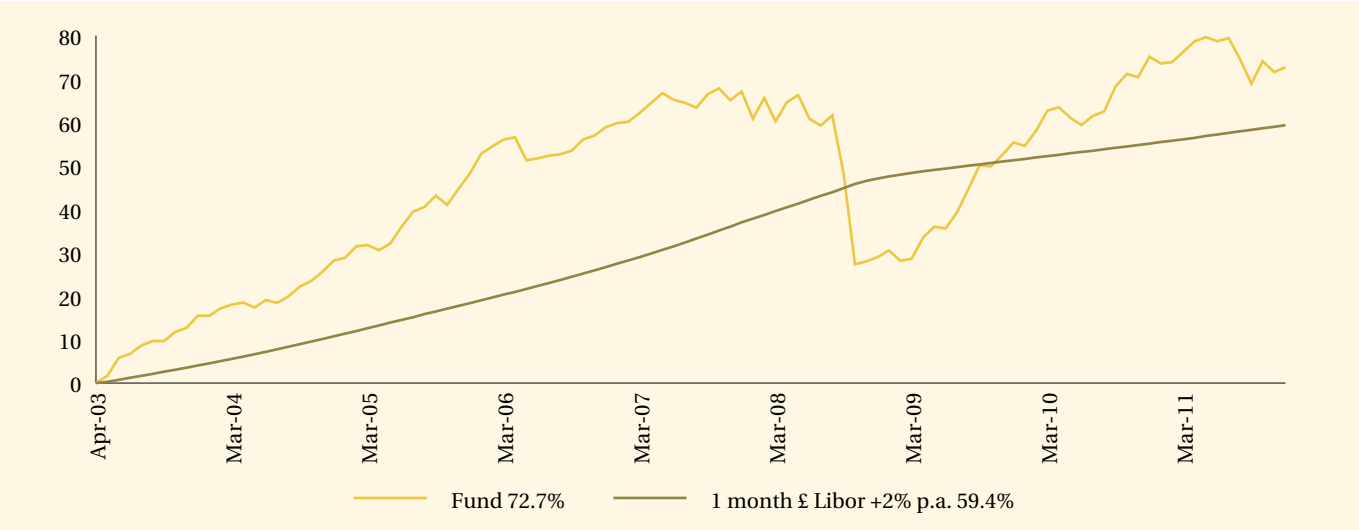
Risks to investors in the deleveraging world are plentiful; credit, counterparty and liquidity risks all assume an importance far exceeding that with which financial market participants had to contend in the years before the global financial crisis. As a result, the prevailing environment is one in which slavishly following a financial market index could prove costly; instead, it requires the careful sifting of wheat from chaff. The Phoenix Multi Asset Fund continues to aim to produce returns above cash with volatility well below equity markets as it has done over the longer term.

Fund management team:

Philip Collins and Paul Flood

Long-term performance

Performance since launch (%)



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Fund	-	-	11.0	15.6	7.2	5.2	-22.8	20.5	12.7	-1.4
1 month £ Libor +2% p.a.	-	-	6.5	6.9	7.0	8.1	7.4	2.8	2.5	2.7

Discrete past performance (%)

From	31/12/06	31/12/07	31/12/08	31/12/09	31/12/10
To	31/12/07	31/12/08	31/12/09	31/12/10	31/12/11
Fund	5.2	-22.8	20.5	12.7	-1.4

Source: Lipper, Bloomberg & Datastream, as at 31 December 2011. Calculation basis: Sterling, total return, bid to bid, without initial charges, net income reinvested, net of management fees.

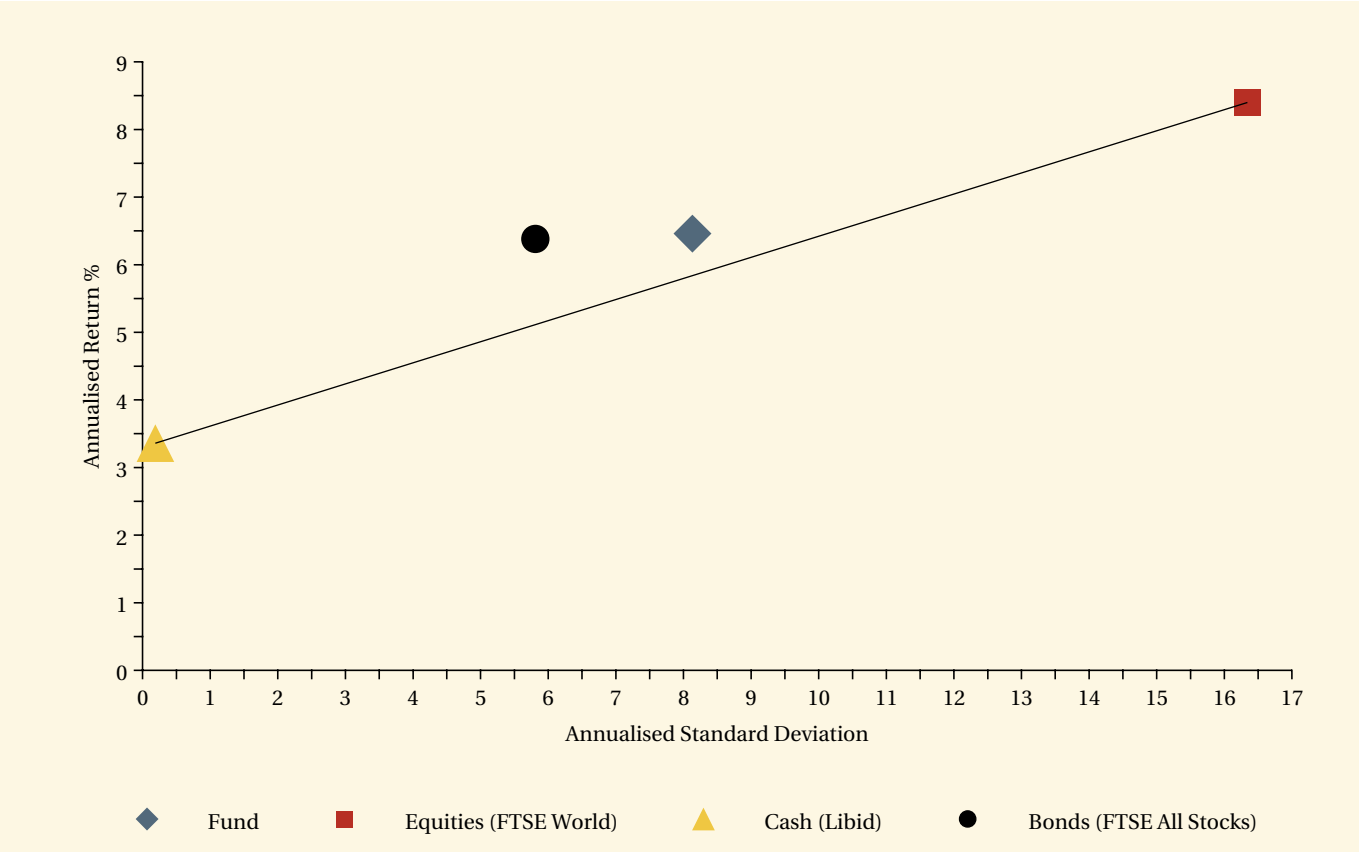
Risk factors

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 6.5% 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	6.5%	8.1%	0.4
1 month £ Libor +2% p.a.	5.5%		

Source: Lipper, Bloomberg & Datastream, as at 31 December 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.

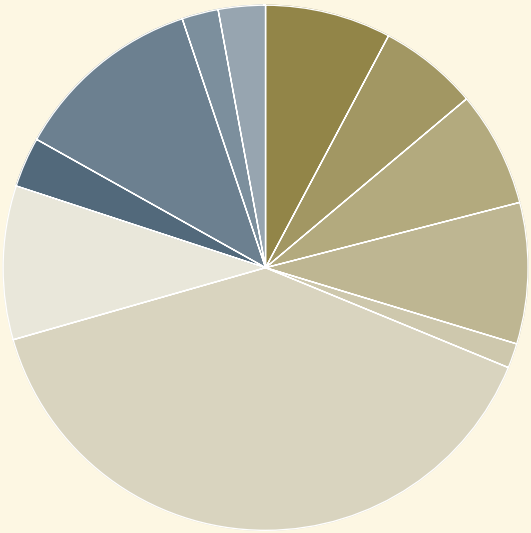
Strategy groups	Representatives from the strategy team, fund managers and research analysts identify global themes and formulate our economic view.
Research team	Global sector analysts, supported by fund managers, identify investment opportunities within the thematic backdrop.
Fund management	Fund managers 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
Deleverage	The credit bubble has left many economies carrying levels of debt which materially impair their economic prospects. We anticipate an extended period of relatively low growth and higher economic volatility as debt is reduced to more manageable levels. The scale of the accumulated public and private debt means that how the debt loads are reduced (whether in disorderly fashion or not) and the effect of offsetting policies will be critical for all aspects of the investment outlook.	Barrick Gold, Gold ETF, Roche, John Laing Infrastructure
Global realignment	Western industrialised nations still dominate the world's economic output, wealth, consumption and market capitalisation in US dollar terms, as well as consuming the lion's share of natural resources. The generally stronger growth potential and increasing economic influence of the developing world are progressively challenging this position. The trajectory of this realignment is likely to be volatile and increasingly prone to cyclical divergence.	Petrobras, Jain Irrigation, Yingde Gases, Bangkok Bank
Networked world	Networks are now ubiquitous, allowing information to flow between entities that may have previously been unconnected. The technologies being built into these networks are still developing at a rapid pace and the ecosystem of the web is unstable, offering unprecedented opportunities and risks for both web-based and traditional business models.	Ariba, Opera Software, Apple
Healthy demand	This theme covers a number of aspects. Expanding incomes and changes in lifestyles in the developing world, combined with ageing populations and severe budgetary constraints in the mature economies, fuel strong demand for 'affordable' healthcare solutions. At the same time, increasing recognition of the role of diet in disease (particularly in an era of high food costs) points to potential changes in patterns of food consumption in the West and the adoption of Western-style diets globally.	GloxoSmithKline, Novartis, Bayer

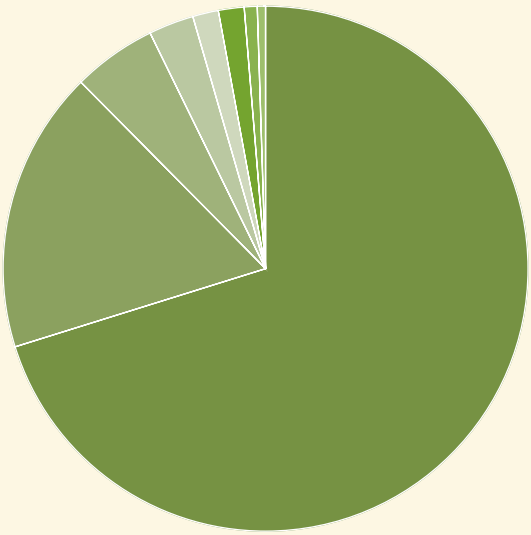
Fund analysis

Asset class weightings



- 7.8% Government Bonds
- 6.1% Corporate Bonds
- 7.1% Sub Investment Grade Bonds
- 8.7% Index Linked
- 1.5% Convertible Bonds
- 39.4% Equities
- 9.5% Commodities
- 3.1% Property
- 11.7% Hedge Funds
- 2.2% Private Equity
- 2.9% Cash

Currency exposure



- 70.6% Sterling
- 17.5% US Dollar
- 5.2% Other
- 2.8% Swiss Franc
- 1.6% Hong Kong Dollar
- 1.6% Japanese Yen
- 0.8% Australian Dollar
- 0.5% Singapore Dollar
- -0.6% Euro

Source for all charts: Newton, as at 31 December 2011.

Portfolio valuation

Newton Phoenix Fund	100.00
Government Bonds	**7.77**
UK Treasury Gilt 4.75% 07/12/2030 GBP0.01	2.23
UK Treasury Gilt 2.25% 07/03/2014 GBP0.01	1.19
UK Treasury Stock 5% 7/03/2025 GBP0.01	1.94
UK Treasury Stock 4.75% 7/03/2020 GBP0.01	2.42
Corporate Bonds	**6.13**
Anglo American Capital PLC 6.875% Bds 1/5/2018 GBP	0.99
Co-Operative Bank PLC 5.75% Bds 2/12/2024 GBP1000	0.78
Imperial Tobacco Finance PLC 8.125% Notes 15/03/2024 GBP	0.72
Morrison (WM) Supermarkets PLC 4.625% Bds 08/12/2023 GBP	0.35
Severn Trent Water Utils PLC 6% Bds 22/01/2018 GBP	0.91
Standard Chartered Bank 8.103% Stp Perp 29/5/2049 GBP	0.80
Tesco Property Finance 3 PLC 5.744% Bds 13/04/2040 GBP	0.62
Unique Pub Finance Co PLC 5.659% Bds 30/06/2027GBP 'A4'	0.96
Sub Investment Grade Bonds	**7.12**
BNY MFM Ltd Newton Gbl High Yld 'X' (Acc)	0.64
Campofrio Food SA 8.25% Bds 31/10/2016 EUR RegS	0.57
CEDC Fin Corp Intl Inc 8.875% Bds 01/12/2016 EUR RegS	0.32
Conti-Gummi Finance BV 7.125% Bds 15/10/2018 EUR RegS	0.51
HeidelbergCement AG 7.5% Bds 03/04/2020 EUR1000	0.51
Ineos Finance PLC 9.25% Bds 15/05/2015 EUR RegS	0.56
NB Global Floating Rate Inc Fd Red Ptg Pref Shs GBP	1.00
Origin Energy Finance Limited 7.875% Bds 16/6/2071 EUR	0.30
Renhe Commercial Holdings 13% Bds 10/03/2016 USD RegS	0.47
Smurfit Kappa Acquisition 7.25% Bds 15/11/2017 EUR RegS	0.46
Stena AB 6.125% Bds 1/02/2017 EUR RegS	0.40
Tullett Prebon Group Holdings 7.04% Bds 06/07/2016 GBP1000	0.58
Unitymedia GmbH 8.125% Bds 1/12/2017 EUR RegS	0.43
Wind Acquisition Finance SA 11.75% Bds 15/07/2017 EUR RegS	0.37
Index Linked	**8.65**
Anglian Water Services Finance 4.125% I/L Nts 28/7/2020 GBP	1.26
National Grid Gas PLC 4.1875% Index-Linked 14/12/22	1.43
Tesco PLC 4% Idx Lkd Nts 8/09/2016 GBP	1.07
UK Treasury Gilt 1.25% Index-Linked 22/11/2055	1.24
UK Treasury Gilt 1.25% Index-Linked 22/11/2017	1.38
UK Treasury Gilt 1.125% Index-Linked 22/11/2037	1.17
USA Treasury Notes 1.875% TII 15/07/2013 USD100	1.10

Portfolio valuation

Convertible Bonds	**1.52**
Cable & Wireless PLC 5.75% Cnv Bds 24/11/2014 GBP	0.28
China Green (Holdings) Ltd 3% Cnv Bds 12/04/2013 CNY	0.40
Interpublic Group of Companies 4.25% Cnv Bds 15/3/2023 USD	0.41
Suzlon Energy Ltd 5% Cnv Bds 13/04/2016 USD	0.44
Equities	**39.35**
3I Infrastructure PLC	0.41
Accenture PLC	0.39
Align Technology Inc	0.99
Altria Group Inc	0.79
Apple Inc	0.74
Ariba Inc	0.30
Bangkok Bank PCL	0.56
Barclays Bank PLC 0% FTSE 100 6/10/2017 £ '1138'	0.83
Barrick Gold Corp	0.87
Bayer AG	0.96
BG Group PLC	0.76
BG Group PLC Feb12 1500 (Call Option)	-0.00
BHP Billiton PLC	0.78
Biotech Growth Trust PLC	0.45
BP PLC	1.03
British American Tobacco PLC	0.93
Centrica PLC	0.85
China Mobile (Hong Kong) Ltd	0.57
Cobham PLC	0.64
eBay Inc	0.39
Elders (Merrill Lynch Intl) 9% High Yield Shs Cls 24A	0.71
Elders (Merrill Lynch Intl) Floating Rate Income Shs 24C	0.65
Energy Development Corp	0.54
FTSE 100 Index Jan12 5200 (Put Option)	0.03
FTSE 100 Index Jan12 5000 (Put Option)	-0.01
GlaxoSmithKline PLC	1.05
HeartWare International Inc	0.42
HICL Infrastructure Co Ltd	0.84
HSBC Bank PLC 0% FTSE/S&P Autocall 04/09/17	1.13
HTC Corporation	0.33
ICAP PLC	0.50
INPEX Holdings Inc	0.63
Intl Public Partnership Ltd	0.51

Portfolio valuation

Jain Irrigation Systems Ltd	0.21
Jain Irrigation Systems Ltd	0.00
Japan Tobacco Inc	0.95
Jardine Lloyd Thompson Group	0.47
John Laing Infrastructure Fund	0.97
JPMorgan Structured Products Nts 15/01/18 (FTSE Prf Shs)GBP	1.01
L'Oreal SA	0.53
Larsen & Toubro Ltd	0.17
Man Wah Holdings Ltd	0.00
MTN Group Ltd	0.70
Newcrest Mining Ltd	0.84
Nielsen Holdings N.V.	0.33
Noble Group Ltd	0.00
Novartis AG	1.01
Opera Software ASA	0.32
Parexel International Corp	0.54
Petroleo Brasileiro SA	0.59
Prudential PLC	0.43
Prudential PLC Feb12 720 (Call Option)	-0.00
Reynolds American Inc	0.63
Roche Hldgs AG	1.10
Royal Bank of Scotland Grp PLC FTSE GBP Inc Autocall Certs	1.12
Sanofi	0.62
Sanofi Feb12 56 (Call Option)	-0.01
Serco Group PLC	0.50
Shenguan Holdings Group Ltd	0.31
Societe Generale Acceptance NV 0% UK RPI Lkd Nt 17/03/14 GBP	0.63
SSE PLC	0.92
Statoil ASA	0.60
Syngenta AG	0.71
Taiwan Semiconductor Manufact	0.59
Tele Norte Leste Participacoes	0.41
Telekomunikacja Polska SA	0.52
Yamana Gold Inc	0.66
Yingde Gases Group Company Ltd	0.41
Commodities	**9.48**
Barclays Bank PLC 0% Protect Agric 2 20/10/2014	1.81
ETFS Physical Gold 0% Secured Note (USD)	3.00
ETFS Physical Platinum 0% Secured Note (USD)	0.46
Source Physical Markets PLC Secured Gold Linked Note (USD)	4.22

Portfolio valuation

Property	**3.09**
F&C Commercial Property Trust	0.91
Invista European Real Est Tst	0.40
Link Real Estate Inv Trust	0.29
Mapletree Logistics Trust	0.54
UK Commercial Property Tst Ltd	0.95
Hedge Funds	**11.74**
BH Global Limited	2.92
BH Macro Ltd	1.97
Bluecrest Allblue Fund Ltd	2.00
CQS Diversified Fund Ltd	0.79
Dexion Alpha Strategies Ltd	0.02
Dexion Trading Ltd	2.00
NB Distressed Debt Inv Fd Ltd	1.12
Signet Gbl Fxd Inc Strategies	0.93
Private Equity	**2.24**
Ashmore Glbl Opportunities Ltd	1.33
Oakley Capital Investments Ltd	0.91
Cash	**2.90**

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.

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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