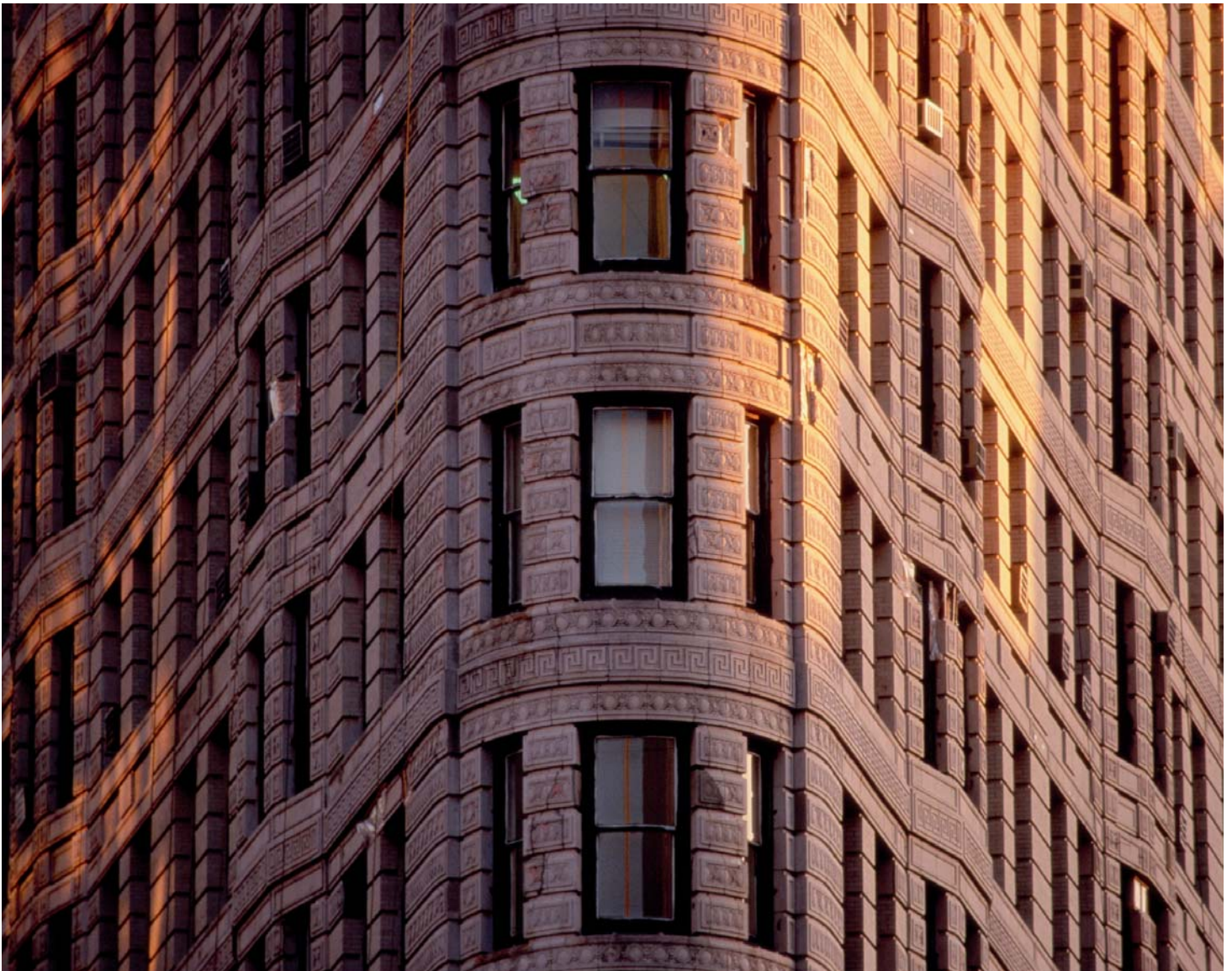


# Newton Offshore Strategy Fund Alternative Assets

Investment Report - Fourth Quarter 2008

► A BNY MELLON ASSET MANAGEMENT COMPANY<sup>SM</sup>

**NEWTON**  
The Power of Ideas



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# Fund information

## Long-term track record

The Newton Offshore Strategy Fund (NOSF) Alternative Assets Fund has returned -21.6% since launch (10 December 2007).

## Aim

To achieve long-term growth in excess of cash returns from a balanced portfolio of Alternative 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.

## Performance references

1 month £ Libor +1% p.a. (benchmark).

## Risk profile

Suitable for investors with a medium risk profile.

## Fund facts

Fund size (millions):	GBP 11	Ex dividend dates:	31 Dec, 30 Jun
Annual management charge:	1.0%	Pay dates:	28 Feb, 31 Aug
Total expense ratio:	1.15%	Last distribution:	0.8773p per unit
Base currency:	GBP	ISIN	GB00B29QMK64
Dividend yield:	1.9%	Sedol	B29QMK6

# Focus on the latest quarter

## Performance over three months

<b>NOSF Alternative Assets</b>	<b>-16.7%</b>				
1 month £ Libor +1% p.a.	1.3%	ARC Balanced Asset	-2.7%	IMA Absolute Return	-0.4%
FTSE W World	-3.2%	FTA Govt All Stocks	10.2%		

Source: Lipper & Datastream, as at 31 December 2008. Calculation basis: Sterling, total return, bid to bid, without initial charges, gross income reinvested, net of management fees.

## Significant transactions

Aquisitions
Societe Generale FTSE 100 Autocall 31/1/14
Symphony Eurostoxx50 Autocall '5' 12/03/13
MW Tops Ltd
BH Global Limited
Symphony Def. Eurostoxx50 Autocall 27/9/13

Disposals
Gold Bullion Ltd
Symphony Def. Eurostoxx50 Autocall 27/9/13
Symphony FTSE Absolute Return 31/05/13
Barclays Bank PLC 0% FTSE AutoCall 27/06/13
Bluecrest Allblue Fund Ltd

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

## Fund manager report

The Fund fell 16.7% in the final quarter of 2008 driven primarily by a very weak October during which all alternative assets fell at the same time. The benefits of diversification between alternative assets were therefore limited. The Fund fell 21.6% during the year, disappointing compared to its cash plus 1% benchmark of 6.4%.

In the quarter, global economies seemed to catch up with the prevailing gloom in financial markets. Amidst high financial volatility and reports of fraud in the hedge fund industry, central banks slashed interest rates and began to talk of printing more money as inflation concerns were replaced by deflation worries. Sterling accelerated its fall against the major world currencies.

By far the largest contributor to negative performance during the quarter was hedge funds. Whilst we had reduced our exposure during the

previous quarter, we should have cut more aggressively. Generally negative returns from the underlying assets were exacerbated by sharp falls in the share prices of hedge fund investment trusts. Share buy backs by companies were ineffective or had to be suspended as cash was redirected towards financing currency hedging. Sentiment deteriorated markedly on the announcement of the Madoff fraud (the Fund had less than 0.1% exposure). A number of hedge funds have made announcements to return capital to shareholders and we expect more as continuation votes are triggered over the next year. We will receive our first payment in early February, representing 5.0% of the Fund.

We anticipate that returns from hedge funds will come from two sources in 2009; NAV appreciation from managers that have proved their ability to produce positive returns without a dependency on

debt and the return of capital to shareholders at a premium to the existing share price.

Structured products within the Fund produced negative returns in October and November, followed by a positive return in December. Volatility and interest rates, two large contributors to structured product pricing, moved in opposite directions with interest being slashed aggressively and volatility reaching new highs. Our strategy for structured products remains broadly unchanged with a focus on defensive autocalls on the FTSE100. These investments will produce a positive return (circa 12%) when the investment matures if the index is equal to or above 80% of the index level at inception on its anniversary. If the index is below 80% on the first anniversary, the index is observed a year later and so on for a maximum of six years. Annual returns are cumulative and capital is at risk if the FTSE100 index falls 50% from inception (ie 2971).

Commodity investments within the Fund produced a negative return in October followed by positive returns in November and December. Gold, in sterling terms, was the main driver of performance, with more mixed results from our soft commodity and industrial metal exposure. We have a clear preference for gold as an inflation hedge; policy response around the world has been aggressive and there is a desire from governments and central banks to do all they can to stimulate economic growth. We are likely to reduce industrial metal exposure given the weak demand outlook.

We raised some concerns about private equity during the last quarter and these proved well founded as investors became increasingly worried about private equity managers' ability to honour financial commitments previously made. Managers are reliant on disposals of assets and/ or debt for funding and in both markets volumes are very low. The outlook is likely to remain difficult and we intend to reduce our small exposure further.

Property investments struggled during the quarter as physical property continued to fall. Our overseas property exposure provided little support but did benefit from sterling weakness. Property investments are now discounting a lot of bad news and whilst there is likely to be a further deterioration in the economy, property companies

with good quality tenants and little debt may be well placed to take advantage of longer term opportunities in the property market.

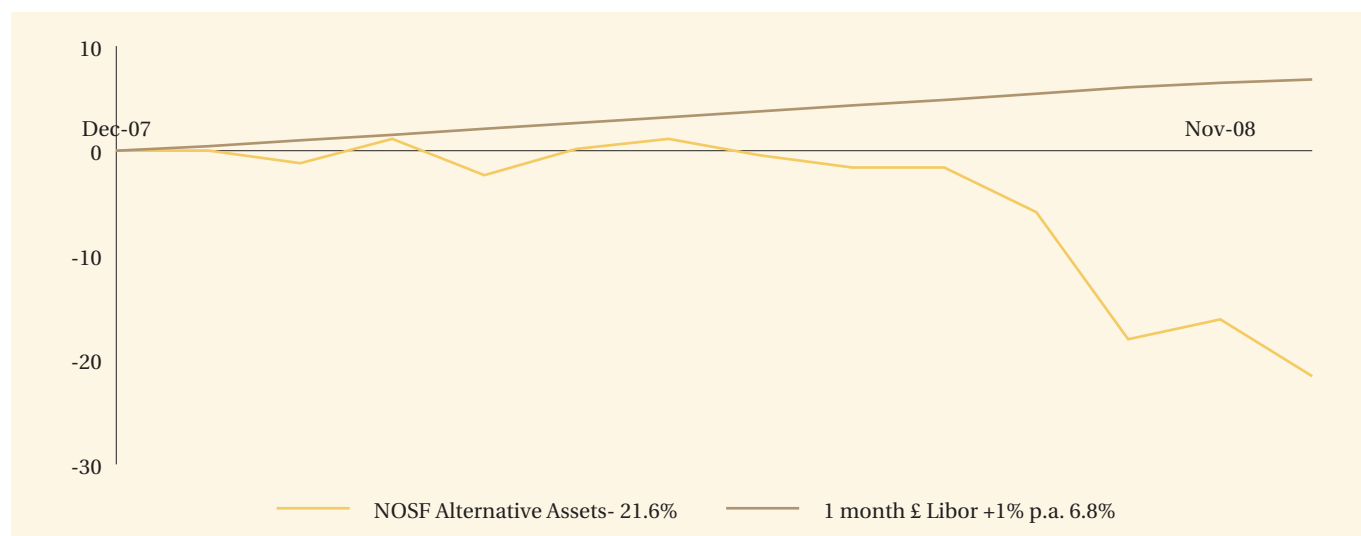
Clearly the return in 2008 was disappointing and many of the assets held within the fund are currently out of favour. There is value within the investments held and we expect corporate action in 2009 to create better returns for investors.

**Fund manager:**

Charles Insley

# Long-term performance

## Performance since launch



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
NOSF Alternative Assets	-	-	-	-	-	-	-	-	-	-21.6
1 month £ Libor +1% p.a.	-	-	-	-	-	-	-	-	-	6.4

## Discrete past performance - percentage change

From	31/12/03	31/12/04	31/12/05	31/12/06	31/12/07
To	31/12/04	31/12/05	31/12/06	31/12/07	31/12/08
NOSF Alternative Assets	-	-	-	-	-21.6%

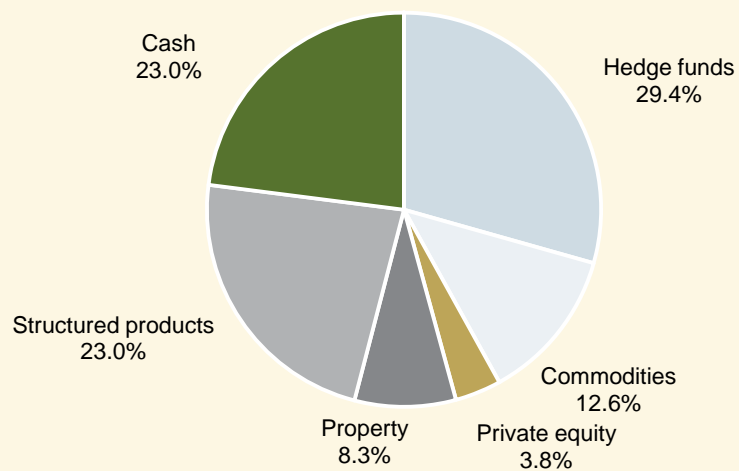
Source: Lipper, Datastream, as at 31 December 2008. Calculation basis: Sterling, total return, bid to bid, without initial charges, gross income reinvested, net of management fees. Care should be taken when extrapolating these figures due to short performance history.

## 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.

# Fund analysis

## Asset class weightings



Source for all charts: Newton, as at 31 December 2008.

# Portfolio valuation

	Holding (%)
<b>Cash</b>	<b>22.96</b>
<b>Hedge Funds</b>	<b>29.35</b>
Acencia Debt Strategies Ltd	2.59
Alternative Inv Strategies Ltd	0.95
BH Global Limited	4.28
Bluecrest Allblue Fund Ltd	4.07
Dexion Absolute Ltd	0.89
Dexion Trading Ltd	1.07
FRM Credit Alpha Ltd	1.84
FRM Diversified Alpha Limited	3.28
Goldman Sachs Dynamic Opps Ltd	0.81
MW Tops Ltd	4.95
Signet Gbl Fxd Inc Strategies	1.71
Tapestry Investment Co PCC Ltd	2.93
<b>Commodities</b>	<b>12.65</b>
Barclays Bank PLC 0% Prot Agric GCSI Div 26/3/13	2.39
Ceres Agriculture Fund Limited	1.01
Gold Bullion Ltd	5.21
Harewood Structured Invest PCC BNP Paribas Agrinvest Prf Shs	1.74
Harewood Structured Invest PCC BNP Par Energy Base Met Prf Sh	2.31
<b>Private Equity</b>	<b>3.79</b>
F&C Private Equity Trust PLC	0.87
JP Morgan Private Equity Ltd	2.50
Pantheon Intl Participations	0.42
<b>Property</b>	<b>8.27</b>
F&C Commercial Property Trust	1.07
Hongkong Land Holdings Ltd	1.27
Japan Retail Fund Inv Corp	0.36
Link Real Estate Inv Trust	0.35
Mapletree Logistics Trust	1.86
Matrix European Real Estate IT	0.01
Shimao Property Holdings Ltd	0.47
UK Commercial Property Tst Ltd	1.92
Westfield Group	0.97
<b>Structured Products</b>	<b>22.97</b>
Barclays Bank PLC 0% FTSE AutoCall 27/06/2013	6.86

# Portfolio valuation

Elders (Merrill Lynch Intl) Japan Cap Protected 111 17B	1.48
Elders (Merrill Lynch Intl) 9% High Yield Shs Cls 24A	1.06
Elders (Merrill Lynch Intl) Capital Accumulation IV 25A	0.80
Goldman Sachs International P/WTS 1/3/11(Emerging Mkt FX)	0.01
Goldman Sachs International C/WTS 1/3/11(Emerging Mkt FX)	0.28
Societe Generale Acceptance NV 0% FTSE 100 Autocall 31/1/2014	7.18
Symphony Def FTSE Autocall2 '1' N-Vtg Prf Shs GBP 6/2/2014	5.31

# 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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