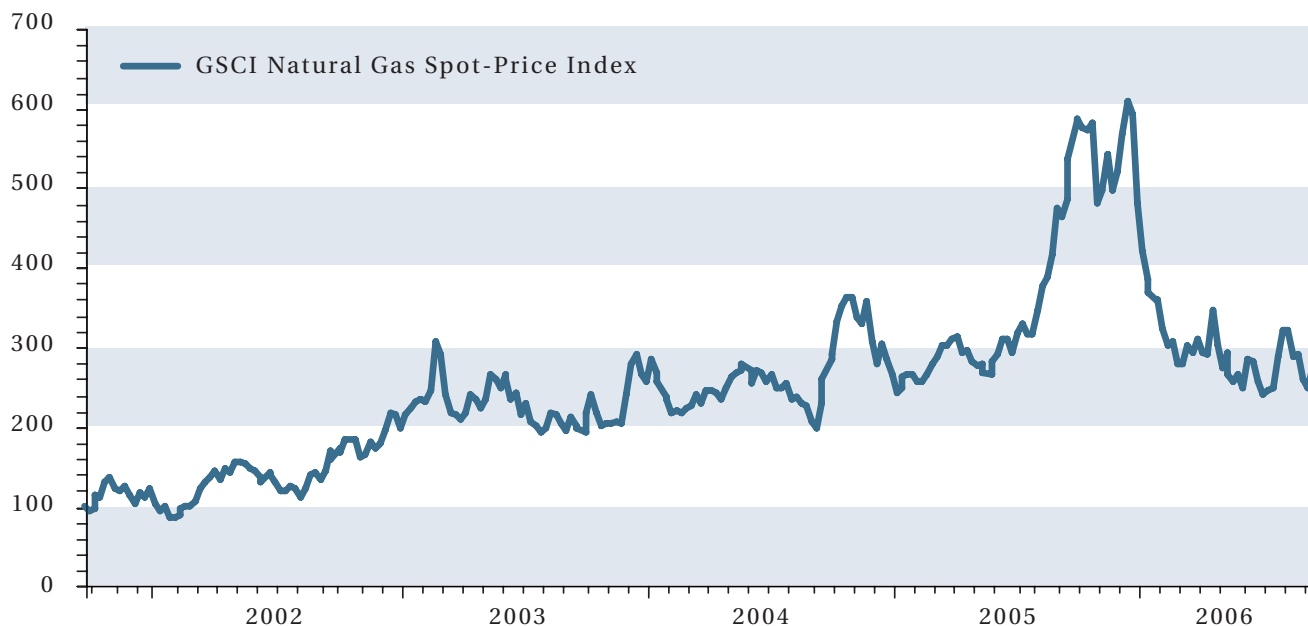


# Newton Phoenix Fund exposure to hedge funds

The Hedge Fund industry has grabbed media headlines recently. Two funds announced significant losses - MotherRock in August and Amaranth in September.

Both funds suffered from their exposure to the natural gas market, one of the most volatile commodities traded. The chart below shows the five year spot price performance of the natural gas component of the Goldman Sachs Commodity Index. As you can see, it is very volatile.



Source: Datastream

MotherRock was formed in 2004 and had gathered assets of almost \$0.5 billion investing in energy markets. Amaranth was rather larger with approximately \$9.5 billion under management having started in 2000. Although Amaranth is a multi strategy fund, it had placed an increasing number of investments in the energy sector and it was these investments that led to the significant losses. It is currently assumed that the fund will close with investors losing 65% of their money in the process. It is assumed that MotherRock will close with no money being returned to investors.

The Phoenix Fund owns 13 funds of hedge funds giving exposure to several hundred individual hedge funds. One of those funds of funds held a position in MotherRock and three other funds of hedge funds held positions in Amaranth. Assuming a 100% write off on the holding of MotherRock and a 65% write off on the holdings of Amaranth, the effect on the Phoenix Fund is 0.2%. Whilst disappointing that the funds of hedge funds failed to avoid

MotherRock and Amaranth, the limited effect on unit holders of the Newton Phoenix Fund prove the benefits of diversification once again. Even if the Amaranth holdings are completely written off, the effect on the Phoenix Fund will be 0.25%.

We have engaged in extensive discussions with the managers of the funds of hedge funds with exposure to Amaranth and MotherRock and as these discussions evolve, we will make the decision as to whether to make changes to our holdings. We expected one or more hedge funds within the Phoenix Fund to go out of business (that is the nature of hedge funds – the successful ones thrive, the weaker ones die) and it is for that reason that we have such a broad exposure to a wide range of hedge funds and hedge fund strategies. We expect other hedge funds within the Phoenix Fund to collapse in the future. The job of the Phoenix Fund will be to ensure that such collapses do not have a material impact on the performance of the overall fund.

**Philip Collins**  
September 2006

## Discrete Past Performance – Percentage Change

	30/06/05 – 30/06/06	30/06/04 – 30/06/05	30/06/03 – 30/06/04	30/06/02 – 30/06/03	30/06/01 – 30/06/02
Phoenix Fund	11.0%	13.7%	11.0%^ <sup>^</sup>	-5.4%^ <sup>^</sup>	-20.8%^ <sup>^</sup>

<sup>^</sup> Performance prior to 11 April 2003 reflects the performance of the Phoenix Fund's holdings prior to restyle

Source of performance information: Lipper as at 30 June 2006, total return, net of fees, without initial charges, income reinvested net of tax. Figures are based on sterling returns.

## Risk factors

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. Part of the Fund may be invested in sub-investment grade bonds that typically have a low credit rating and carry a high degree of default risk, which can affect the capital value of your investment. As the Fund has exposure to hedge funds, gold, private equity and property via publicly quoted transferable securities, there are additional risks associated with these sectors.

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