

Newton Balanced Bridge Fund

Investment Report - Second 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 Balanced Bridge Fund has returned 49.9% since launch (23 December 1998), which is equivalent to 3.9% per annum. This is an outperformance of 1.4 % 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 income and capital growth over the long term through a portfolio that is predominantly invested in equities, across a wide range of industries and countries. The equity element is balanced by cash, bonds and exposure to alternative assets, such as hedge funds, to reduce the overall volatility of the portfolio. The fund is managed in line with the Newton Private Investment Management Income and Growth Model. The central asset allocation for the model is 60% invested in global equities and 40% invested in other asset classes which may include bonds, cash, hedge funds, structured products and property.

Expected characteristics

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

Volatility of return: Medium. Investors can expect to experience significant fluctuations in the value of their holding, driven to a large extent by rises and falls in equity markets.

Income: Medium, and the dividend is likely to grow over the long term.

Performance references

WM Private Client Balanced Indicator (benchmark), ARC Sterling Steady Growth, Central Asset Allocation.

Risk profile

Suitable for investors with a medium risk profile.

Fund facts

Fund size (millions):	GBP 195	Ex dividend dates:	31 Jan, 31 Jul
Annual management charge:	0.8%	Pay dates:	2 business days before 31 Mar, 30 Sep
Total expense ratio:	0.84%	Last distribution:	1.6606p per unit
Base currency:	GBP	ISIN	GB0004833660
Dividend yield:	4.0%	Sedol	483366

Focus on the latest quarter

Performance over three months

Newton Balanced Bridge	5.3%				
WM PCI Balanced	7.1%	ARC £ Steady Growth est.	5.8%	Central Asset Alloc.	6.4%
FTSE All Share	10.9%	FTSE W World (ex UK)	5.9%	FTA Govt All Stocks	-1.3%

Source: Lipper, WM, ARC & Datastream, as at 30 June 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	%
Terna Participacoes SA	0.43
ICAP PLC	0.27
DBS Group Holdings Ltd	0.22
Gildan Activewear Inc	0.20
Bangkok Bank PCL	0.20

Negative	%
ETFS Physical Gold	-0.53
HSBC Holdings PLC	-0.44
Barclays PLC (not held)	-0.44
Anglo American PLC (not held)	-0.26
Roche Hldgs AG	-0.23

Significant transactions

Acquisitions
Norway (Kingdom of) 4.25% Bds 19/05/17
Total S.A.
AT&T Inc-5.875% Bds 28/4/17
Newcrest Mining Ltd
Amlin PLC

Disposals
StatoilHydro ASA
Dana Petroleum PLC
Wyeth
Deutsche Telekom Intl Fin. 6.25% 9/12/10
Smiths 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

Equity markets and sterling rebounded strongly in April and May amid signs of a moderation in the rate of economic decline and a belief that the multitude of global initiatives put in place to ease financial and economic conditions are having an impact. Signs of improvement included the repayment of Troubled Asset Relief Program (TARP) funds by ten US financial organisations, numerous companies raising capital either via corporate bond issuance or equity rights issues and an improvement in various business and consumer confidence surveys. Nevertheless, the outlook cannot be described as “rosy” and we believe a cautious stance is still merited. It may be unwise to fully extrapolate the improvements which have been seen. The cost of the fiscal stimuli is unclear with the numbers still increasing: in the UK the recent budget confirmed that public sector borrowing will increase to 12.4% of GDP from the 8% previously forecast; and unemployment

continues to rise. Our view remains that a sustained economic recovery is unlikely unless the underlying cause of the financial crisis, too much debt, is resolved.

Your fund increased in value over the quarter by 5.3%, bringing its total return for the first half of 2009 back into positive territory. The fund performed in line with our expectations, as it was not positioned to benefit from a short-term rally in economically sensitive sectors such as banks, house builders and general retailers. Whilst it underperformed market movements this quarter, it is in line with various reference indicators for the six months.

The exposure to financial companies has been increased through purchases of Amlin, Jardine Lloyd Thompson and Goldman Sachs. The addition of Goldman Sachs may, at first, appear at

odds with our long held views on investment banks. In addition to an attractive valuation, they are survivors within their sector and we believe they have the culture to evolve and prosper in a new environment where leverage is restrained and their competitors are in a weakened state. They have demonstrated their financial strength with the repayment of the TARP funding and strong revenue generation owing to involvement in raising capital for many companies.

The insurance market has seen a significant outflow of capital which has been exacerbated by the demise of AIG. We anticipate that this situation will not be remedied quickly and thus the subsequent increase in insurance rates is beneficial for the profitability of the sector as a whole. Amlin and Jardine Lloyd Thompson should benefit as companies reassess who is providing their insurance cover and increase the number of providers of such cover.

Turning to the sales carried out during the quarter, we took some risk out of the fund's Oil and Gas investments by selling the holding in Dana Petroleum on the back of seemingly unfounded rumours about a takeover approach. The shares had held up well since purchase, in spite of a very volatile environment for the oil price, and no longer offered particularly compelling value.

Other sales included Gildan Activewear, a t-shirt, fleece and sock manufacturer, Wyeth, a US pharmaceutical company, and a reduction in Vale following a strong recovery in commodity related shares. Gildan received harsh treatment throughout 2008 and the first two months of 2009: earnings have suffered as their distributors reduced inventories. Nevertheless, the company has continued to take market share from rivals, has a sensible strategy for growth and has very little debt. The share price has more than doubled from March lows and following this recovery we sold the holding. Wyeth was removed from the portfolio ahead of its takeover by Pfizer. We did not wish to hold Pfizer shares and the value of Wyeth shares traded very closely to the implied takeover price.

Corporate bonds benefited from the improved risk appetite and performed strongly, especially when compared to government bonds. We continue to be selective with the opportunities presented by new issues, buying an A rated AT&T bond on a yield

of 5.9%, and reducing our exposure when certain bonds trade at low absolute yields as represented by sales of France Telecom, Deutsche Telecom and Kelda bonds. We added a Norwegian government bond to the portfolio on a higher yield than the corresponding UK Gilt. The Norwegian Government, with its oil revenues, is in a stronger position than the UK with the forecasted budget deficit mentioned above and the corresponding need to issue debt, both of which threaten the outlook for the UK gilt market and sterling.

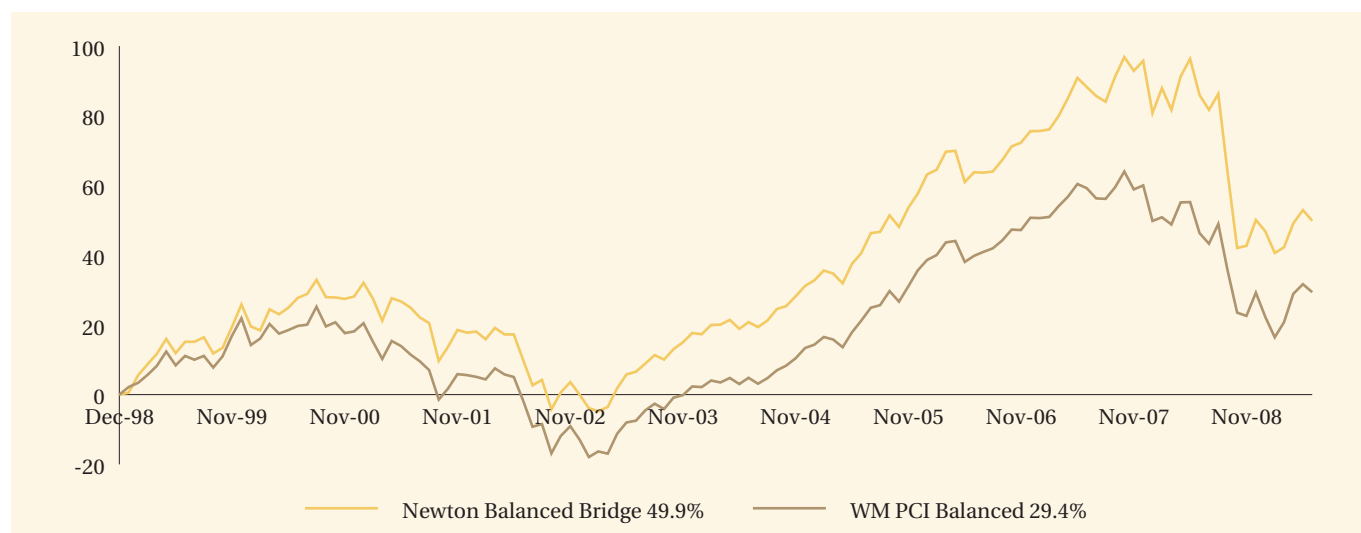
The Balanced Bridge fund is managed, as for all our portfolios, with guidance from a relevant model, in this case the Newton Private Investment Management Income and Growth model. The model recently updated its investment guidelines. For a sterling biased investor with a medium risk appetite and a long term capital growth objective, a central asset allocation of 60% in equities and 40% in non equities (cash, bonds, property, hedge funds and gold for example) can be appropriate. The range within which equities can move is from 40% to 80% and for non equities, from 20% to 60%. The investment process underlying the fund remains the same and performance is measured against a variety of reference indicators including the WM and ARC Private Client indices and the performance of the central asset allocation.

Fund management team:

Caroline Lindsay and Julie-Ann Ashcroft

Long-term performance

Performance since launch



	2000	2001	2002	2003	2004	2005	2006	2007	2008	YTD 2009
Newton Balanced Bridge	1.8	-8.1	-15.1	17.7	11.5	20.2	11.4	11.5	-23.3	-0.2
WM PCI Balanced	-3.1	-10.6	-17.5	17.5	10.8	19.6	11.1	6.1	-19.2	0.1

Discrete past performance - percentage change

From	30/06/04	30/06/05	30/06/06	30/06/07	30/06/08
To	30/06/05	30/06/06	30/06/07	30/06/08	30/06/09
Newton Balanced Bridge	16.4%	16.5%	14.9%	-1.2%	-19.4%

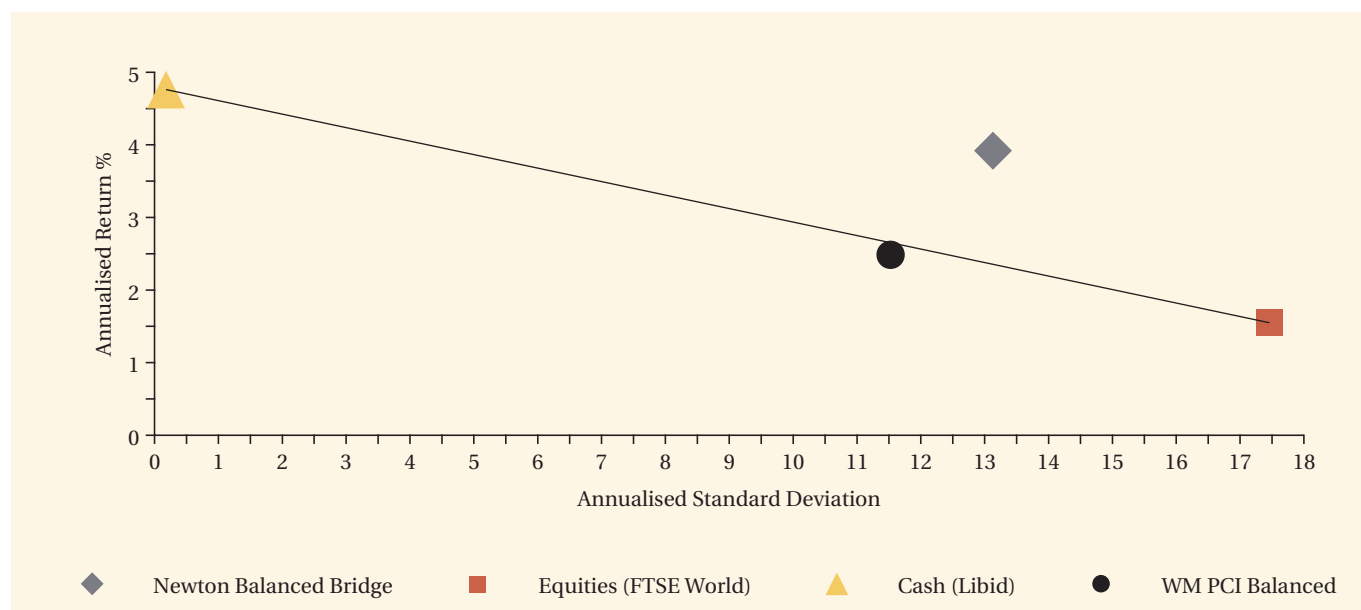
Source: Lipper, WM & Datastream, as at 30 June 2009. Calculation basis: Sterling, total return, bid to bid, without initial charges, net income reinvested, net of management fees.

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 Balanced Bridge Fund has given a higher return than world equities and the WM PCI Balanced Indicator with greater volatility than that of the WM PCI Balanced Indicator. The launch date of the fund was 23 December 1998.

Risk and return since launch

	Annualised Return	Volatility	Sharpe ratio
Newton Balanced Bridge	3.9%	13.1%	-0.1%
WM PCI Balanced	2.5%	11.5%	-0.2%

Source: Lipper, WM & Datastream, as at 30 June 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.

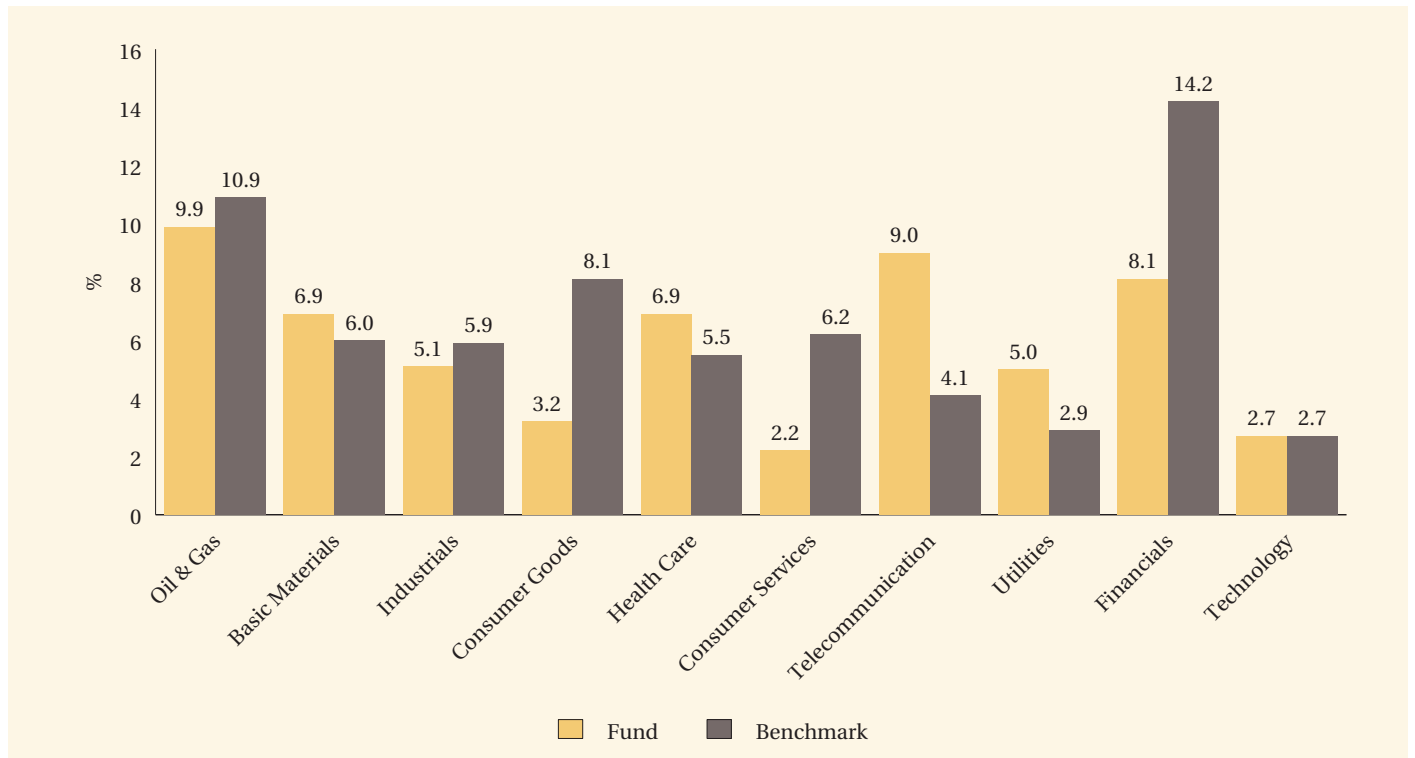
Strategy groups	Representatives from the strategy team, fund managers and research analysts identify global themes and formulate our economic view.
Research team	Global sector analysts, supported by fund managers, identify investment opportunities within the thematic backdrop.
Fund management	Fund managers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

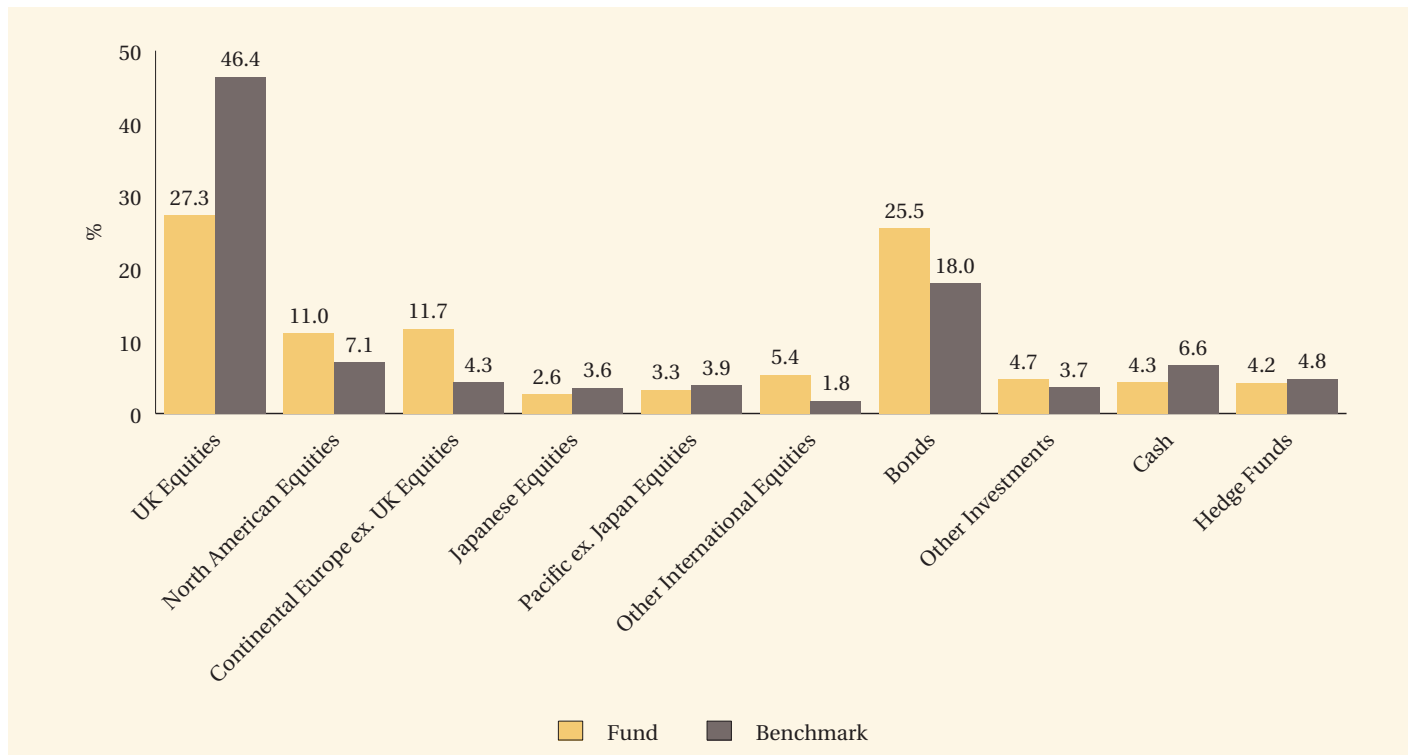
Theme	Factors	Investments
All Change	The previously benign period of stable growth, low inflation, and easy credit, which allowed private sector debt and financial leverage to grow to unsustainable levels (as described in a previous theme, "Becalmed") has come to an end. When assessing investments we assume that access to credit will remain difficult, which favours companies with limited financing requirements and argues against exposure to highly-indebted customers.	Barrick Gold, Centrica, Cobham, Microsoft, Nestle, Novartis, Short dated corporate bonds
Networked World	Communications networks have already transformed our lives, but there is great scope for further expansion. Rapid increases in bandwidth continue to increase networks' potential, and this is driving productivity gains. The explosive growth of mobile internet, combined with innovations in sensor technology, will generate profound changes in many industries.	Deutsche Telekom, Millicom, Tele Norte Leste, Verisign, Vodafone
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. This has implications for the oil industry, infrastructure, and alternative energy sources as well as significant macro effects.	Acciona, Halliburton, Petroleo Brasileiro, Terna Participacoes, XTO Energy
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.	Barrick Gold, Index-linked Gilts, Norwegian Government bonds Avoid state-controlled banks e.g. RBS, LloydsTSB

Fund analysis

Equity weightings by industry



Regional and asset class weightings



Source for all charts: Newton, as at 30 June 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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Newton Balanced Bridge Fund

Newton Investment Management Limited (NIM)

Telephone: 020 7163 9000

Fax: 020 7163 5063

email: privateclients@newton.co.uk

NIM London

The Bank of New York Mellon Centre
160 Queen Victoria Street
London EC4V 4LA

NIM Edinburgh

2 Festival Square
Edinburgh EH3 9SU

NIM Leeds

No.1 Whitehall Riverside
Leeds LS1 4BN

