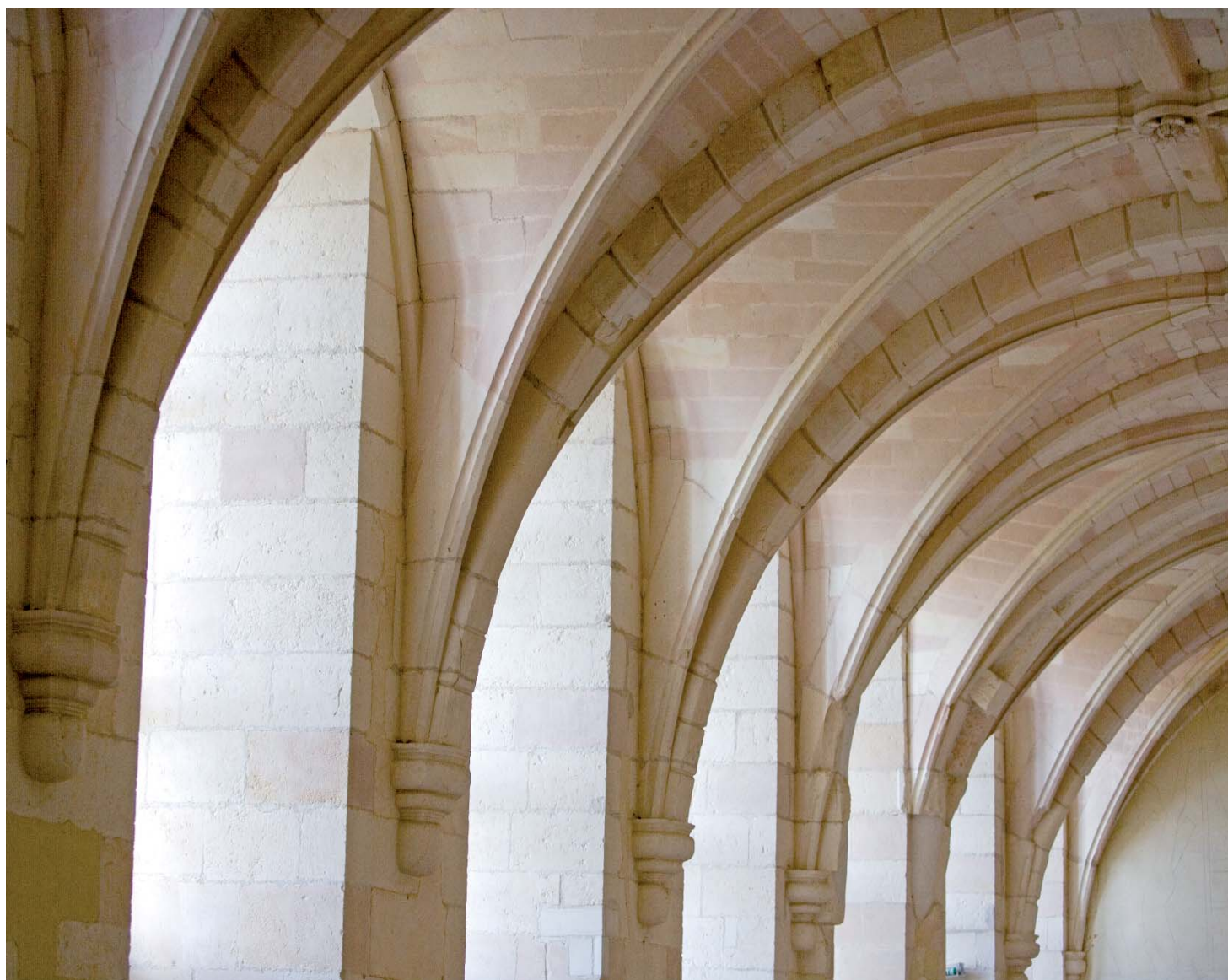


Newton Falcon Fund

Investment Report - Third 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 Falcon Fund has returned 98.5% since launch (13 November 1998), which is equivalent to 6.5% per annum. This is an outperformance of 2.9% 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 capital growth over the long term from a portfolio invested in UK and overseas equities across a wide range of industries and countries. The manager of the fund is expected to invest with limited reference to the composition of the benchmark, and as a result the fund's performance may differ from the benchmark by a wide margin. For most of the time the fund will be fully or almost fully invested in equities, but it is permitted to hold other assets.

Expected characteristics

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

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

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

Performance references

The benchmark is 50% FTSE All Share Index, 50% MSCI World ex UK Index (£).

Risk profile

Suitable for investors with a high risk profile.

Fund facts

Fund size (millions):	GBP 84	Ex dividend dates:	28 Feb, 31 Aug
Annual management charge:	1.5%	Pay dates:	Two business days before 30 Apr, 31 Oct
Total expense ratio:	1.59%	Last distribution:	0.7690p per unit (inc units only)
Base currency:	GBP	ISIN	GB0032585050
Dividend yield:	1.8%	Sedol	3258505

Focus on the latest quarter

Performance over three months

Newton Falcon Fund	17.3%				
Benchmark	21.7%	ARC £ Equity Risk (est)	16.5%	IMA Global Growth	18.9%
FTSE All Share	22.4%	MSCI World ex UK	21.0%		

Source: Lipper, ARC & Datastream, as at 30 September 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	%
Cia Saneamento de Minas Gerais	0.25
Millicom Intl Cellular	0.25
Time Warner Cable Inc	0.25
AstraZeneca PLC (not held)	0.21
Deutsche Post AG	0.21

Negative	%
Sprint Nextel Corp	-0.89
HSBC Holdings PLC (not held)	-0.66
HTC Corporation	-0.44
K+S AG	-0.32
ETFS Physical Gold	-0.31

Significant transactions

Acquisitions
Altria Group Inc.
Genzyme Corp.
Inpex Corp.
Merck & Co. Inc.
Amlin PLC

Disposals
Wyeth
Reynolds American Inc.
Norway (Kingdom of) 4.25% Bds 19/05/17
K+S AG
Terna Participacoes SA

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

Fund manager report

Although the Fund returned over 17% during the quarter, this was significantly behind the benchmark return of 21.7%. In general terms, we have positioned the portfolio too cautiously for the environment that has persisted for the last six months, based on the belief that few of the problems that brought us to the credit crisis have actually been solved. The Fund is nevertheless still ahead of the benchmark over the year to date, and the longer-term record is very much intact.

We believe it remains correct to keep an eye on longer-term concerns relating to consumer and government borrowing in the developed world, and the dependence on highly aggressive monetary policy that has taken hold over the last decade. For these reasons we have maintained significant exposure within the Fund to less cyclical industries such as healthcare, telecoms, and food producers, where we think that valuations are attractive.

During the latest quarter we did, however, broaden the range of new investments we are willing to consider. For example, we increased our exposure to the financial sector, although still on a highly selective basis, through purchases of Goldman Sachs, Lazard, and ICAP. Of these three, Goldman Sachs carries the most balance sheet risk, but is now much more generously capitalised, has valued its assets conservatively, and is taking advantage of very beneficial trading conditions in debt and equity markets. The majority of Lazard's business is purely advisory, focussing on M&A and financial restructuring. Activity in both areas looks set to be buoyant in the aftermath of the crisis, and independent advisors such as Lazard are gaining market share at the expense of the full-service banks.

We introduced a number of new developing market investments during the quarter, including two

consumer goods companies in Brazil. In common with a number of less-developed economies, Brazil stands out by comparison to much of the Western world for its low levels of consumer debt and sound public finances. The authorities did not resort to loose monetary policy in recent years, and rules on bank capital are reasonably tight, so many of the problems that beset economies like the UK were avoided. Natura Cosméticos manufactures cosmetics and personal hygiene products, and is one of the best known brands in the country. Hypermarchas is smaller and less established, but is growing its product portfolio rapidly through acquisition, often of smaller regional companies whose products it can then push through its national distribution network. Both companies' shares were trading at attractive valuations given their growth prospects, and Natura has the attraction of paying out a high proportion of its earnings in dividends.

We added two new commodity companies, Inpex and Consol Energy. Inpex owns large reserves of natural gas off the coast of Western Australia, which we believe will be a key source of supply for Asian LNG (liquefied natural gas) demand in future. Consol Energy has reserves of thermal coal, principally in the Northern Appalachians, and natural gas, with a strong balance sheet and flexibility as to when it commits cash to expand production. It has a significant cost advantage over its competitors, which will be enhanced by increased regulatory hurdles for surface-mined Central Appalachian coal.

Within healthcare, Wyeth and Eli Lilly were sold, and Merck introduced. We would have received Pfizer shares in return for our Wyeth stake, following Pfizer's purchase of the company, but preferred to own Merck on the grounds of its smaller size and better track record of commercialising its research and development. Merck shares trade on an undemanding valuation and pay a high dividend yield, and the acquisition of Shering-Plough leaves the company's medium term growth prospects in better shape than a number of its peers, notably Eli Lilly.

We also purchased a holding in Genzyme, a relatively large and diversified biotech business that was built around the treatment of enzyme deficiencies, such as Gaucher's disease. Recent problems with the production of its principle drug,

which we expect to be temporary, provided an opportunity to buy the shares at an attractive price.

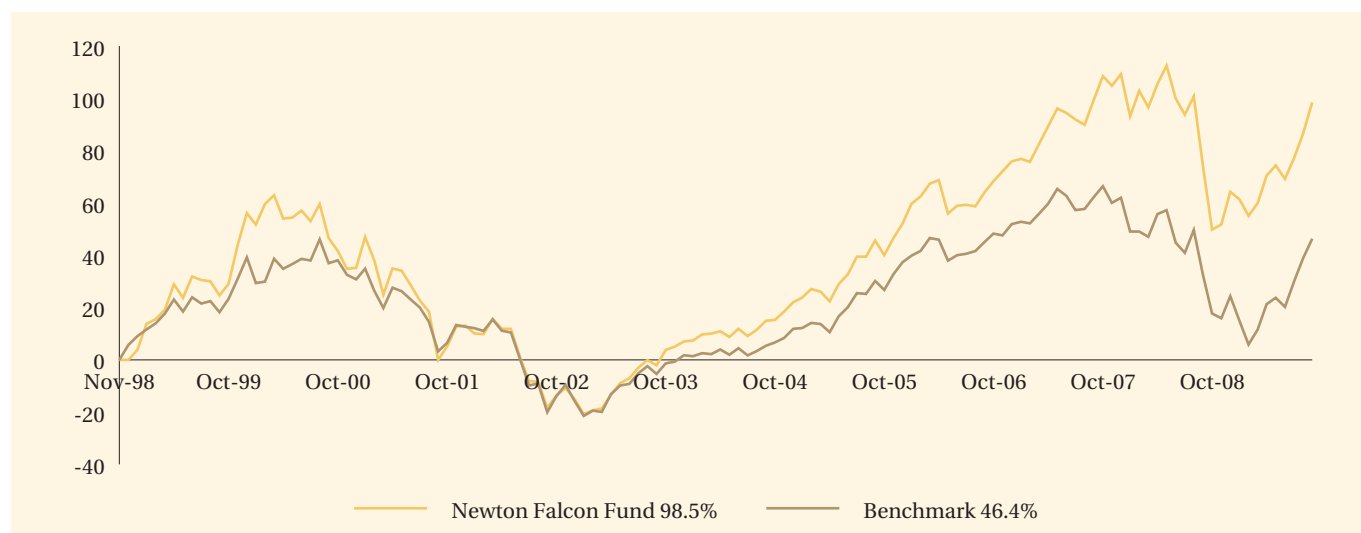
Sales of holdings during the quarter included K+S, which we sold to fund the purchase of Potash Corp of Saskatchewan, on the basis of its superior prospects for output growth and its lower production costs, and Terna Participações, a Brazilian utility that is in the process of being acquired and as a result offered only limited further upside.

Fund management team:

Robert Hay and Ross Ciesla

Long-term performance

Performance since launch



	2000	2001	2002	2003	2004	2005	2006	2007	2008	YTD 2009
Newton Falcon Fund	-13.4	-16.4	-24.8	26.0	14.0	24.6	15.7	19.0	-21.5	20.8
Benchmark	-6.0	-13.9	-25.2	20.8	9.9	22.8	10.6	6.6	-23.2	17.7

Discrete past performance - percentage change

From	30/09/04	30/09/05	30/09/06	30/09/07	30/09/08
To	30/09/05	30/09/06	30/09/07	30/09/08	30/09/09
Newton Falcon Fund	26.7%	12.6%	21.6%	-12.6%	13.9%

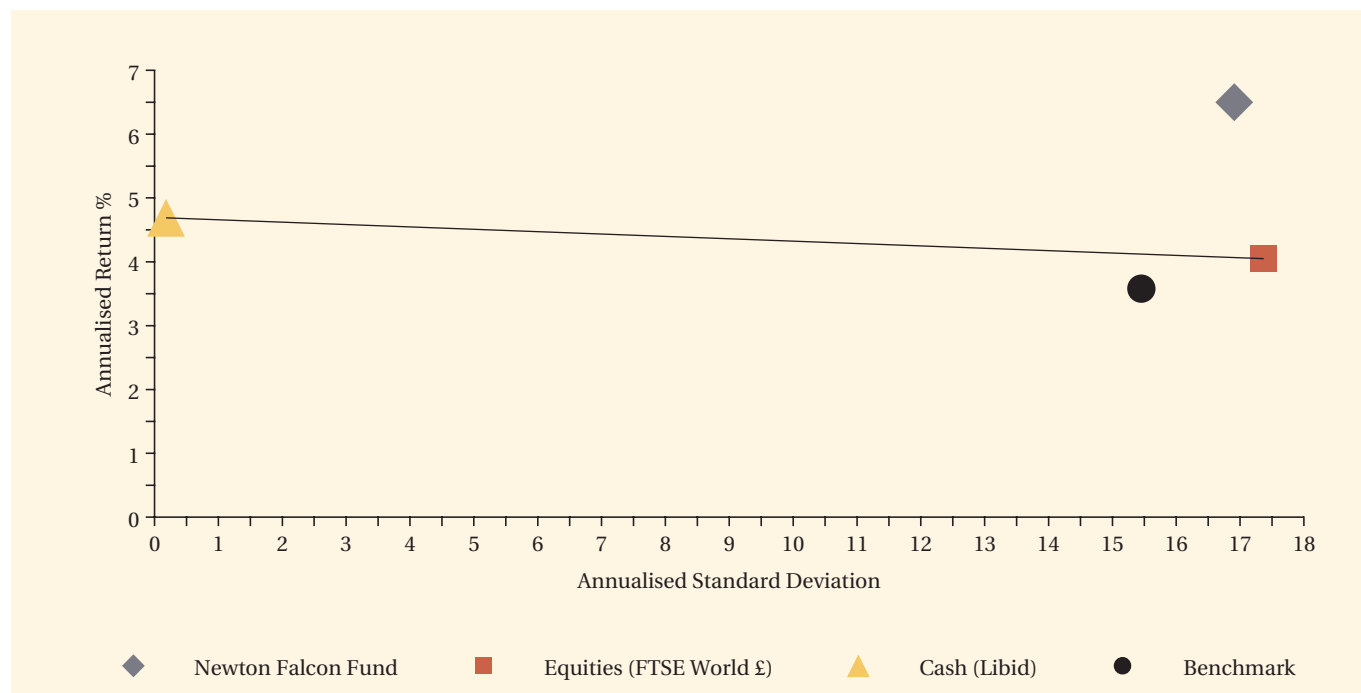
Source: Lipper & Datastream, as at 30 September 2009. Calculation basis: Sterling, total return, bid to bid, without initial charges, net income reinvested, net of management fees.

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 Falcon Fund has given a higher return than the benchmark and world equities with higher volatility than the benchmark. The launch date of the fund was 13 November 1998.

Risk and return since launch

	Annualised Return	Volatility	Sharpe ratio
Newton Falcon Fund	6.5%	16.9%	0.1%
Benchmark	3.6%	15.5%	-0.1%

Source: Lipper & Datastream, as at 30 September 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.

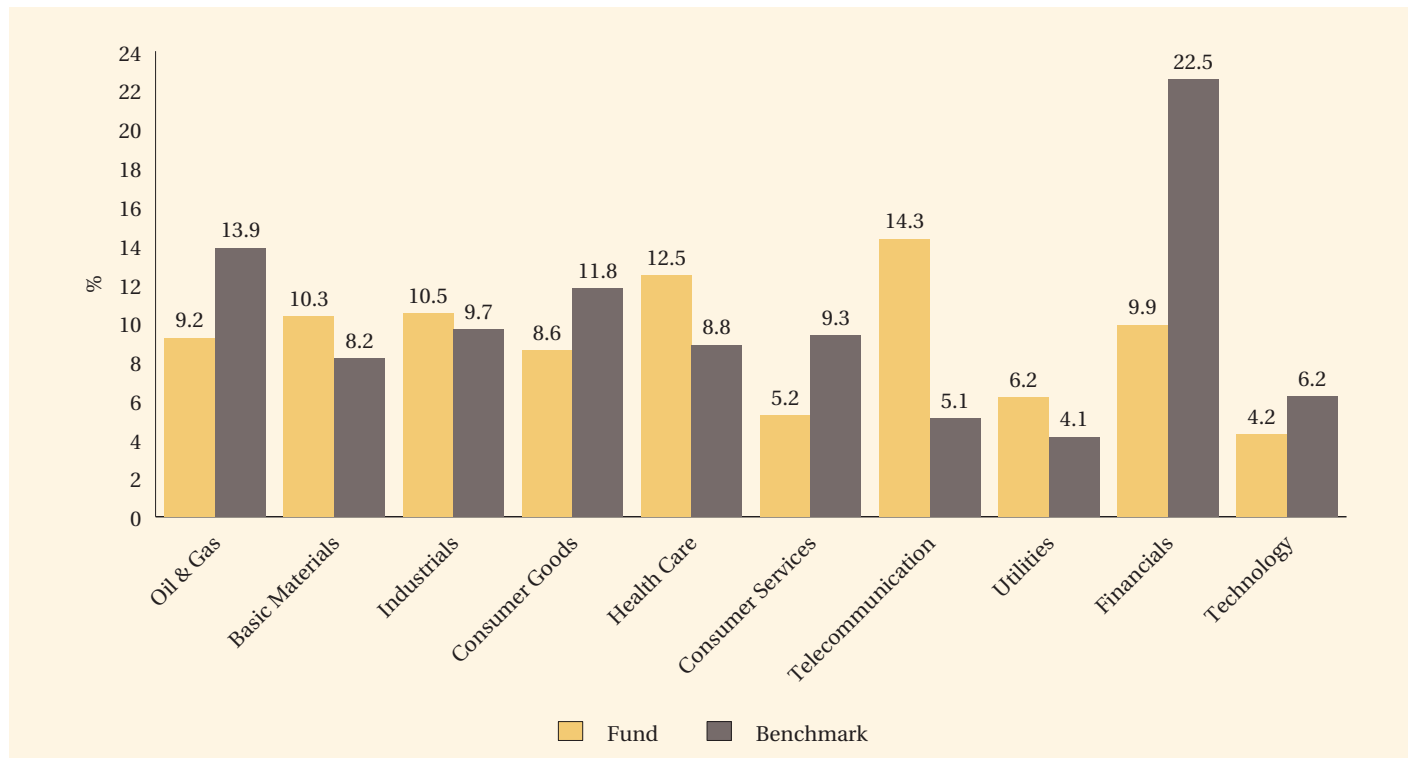
Strategy groups	Representatives from the strategy team, fund managers and research analysts identify global themes and formulate our economic view.
Research team	Global sector analysts, supported by fund managers, identify investment opportunities within the thematic backdrop.
Fund management	Fund managers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

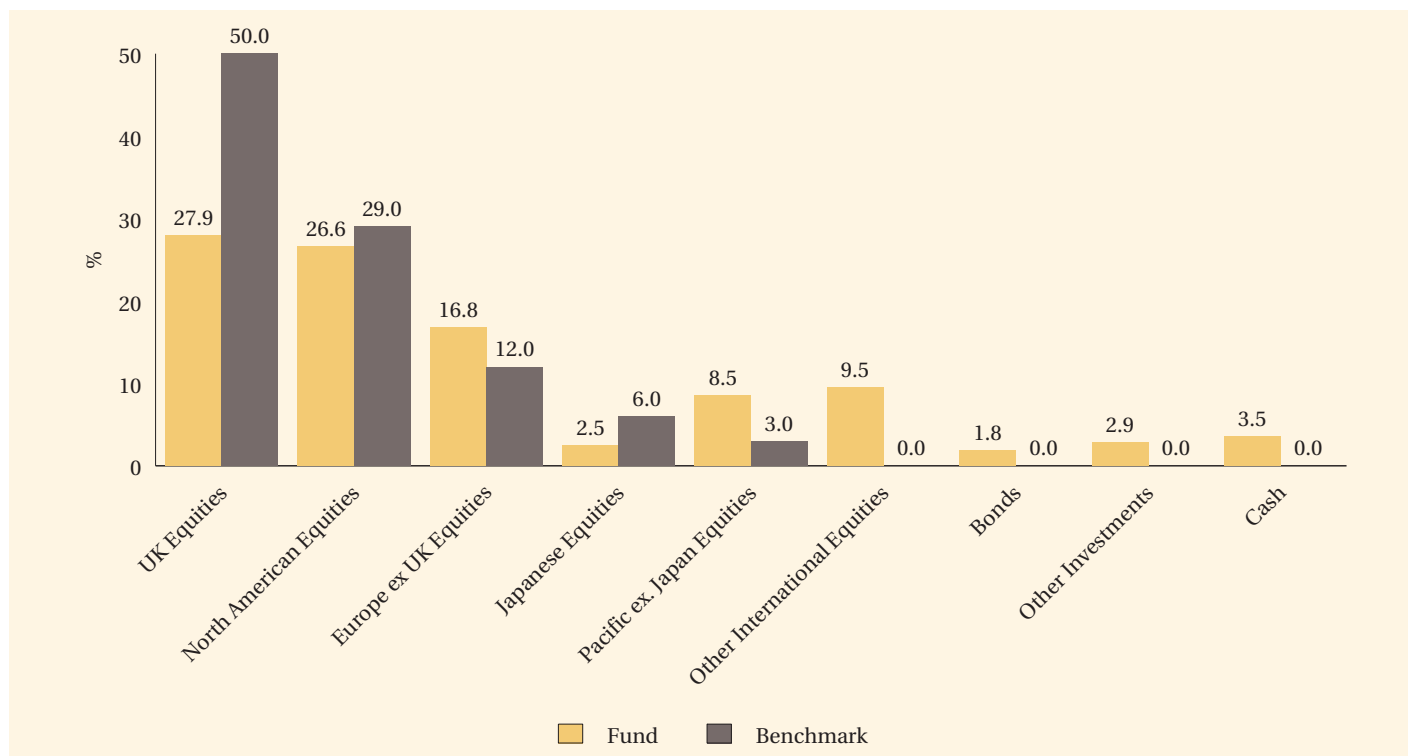
Theme	Factors	Investments
All Change	The previously benign period of stable growth, low inflation, and easy credit, which allowed private sector debt and financial leverage to grow to unsustainable levels (as described in a previous theme, "Becalmed") has come to an end. When assessing investments we assume that access to credit will remain difficult, which favours companies with limited financing requirements and argues against exposure to highly-indebted customers.	Altria, Cable and Wireless, Copasa, Flir Systems, GlaxoSmithkline, HTC, Microsoft, Nestle, limited exposure to western commercial banks
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 depend on 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, China Mobile, Copasa, Hypermarcas, Inpex, Millicom, Natura Cosméticos
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.	Inpex, Petrobras, Devon Energy, XTO Energy, Total
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.	Newcrest Mining, ETFS Physical Gold

Fund analysis

Equity weightings by industry



Regional and asset class weightings



Source for all charts: Newton, as at 30 September 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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