

Newton Balanced Bridge Fund

Investment Report - Second Quarter 2010

► A BNY MELLON COMPANYSM

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Fund information

Long-term track record

The Newton Balanced Bridge Fund has returned 76.9% since launch (23 December 1998), which is equivalent to 5.1% per annum. This is an outperformance of 1.5% 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

Newton Balanced Composite (benchmark), ARC Sterling Steady Growth, WM Private Client Balanced Indicator. The Newton Balanced Composite benchmark comprises 40% FTSE All Share, 20% FTSE World ex UK, 15% FTA Govt All Stocks, 15% ML Sterling Non-Gilts & 10% 1 month £ LIBOR.

Risk profile

Suitable for investors with a medium risk profile.

Fund facts

Fund size (millions):	GBP 228	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:	1.4289p per unit
Base currency:	GBP	ISIN	GB0004833660
Dividend yield:	3.1%	Sedol	483366

Focus on the latest quarter

Performance over three months

Newton Balanced Bridge	-4.3%				
Newton Balanced Index	-6.0%	ARC £ Steady Growth est.	-6.3%	WM PCI Balanced	-7.6%
FTSE All Share	-11.8%	FTSE W World (ex UK)	-11.1%	FTA Govt All Stocks	4.5%

Source: Lipper, WM, ARC & Datastream, as at 30 June 2010. Calculation basis: Sterling, total return, bid to bid, without initial charges, net income reinvested, net of management fees.

Major contributors to relative performance

Positive	%
Barrick Gold Corp	0.49
Sprint Nextel Corp	0.29
Rio Tinto PLC (not held)	0.27
HTC Corporation	0.23
Parkway Holdings Ltd	0.22

Negative	%
BHP Billiton PLC	-0.28
Transocean Ltd	-0.27
Go-Ahead Group PLC	-0.19
AMP Ltd	-0.17
AstraZeneca PLC (not held)	-0.15

Significant transactions

Acquisitions
Treasury-4% Stk 7/3/2022
UK Commercial Property Trust Ltd
Treasury-4.25% Stk 07/12/2027
Treasury-3.75% Stk 07/09/2019
Ziggo Bond Co-8% Bds 15/05/2018 EUR RegS

Disposals
Centrica PLC-5.125% Bds 10/12/2014
Cenovus Energy Inc.
SBM Offshore N.V.
Tesco PLC
AT&T Inc-5.875% Bds 28/4/2017

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

Fund manager report

The last three months have witnessed a reversal in the direction of equity markets, leading to negative returns for the first six months of the year. The Balanced Bridge fund did not go unscathed, falling 4.3% over the quarter. However, this was less severe than the fall in the fund's benchmark or, most notably, the declines in equity indices such as the FTSE All Share Index, which fell 11.8%, and the FTSE World Index ex UK (£) which declined by 10.5%. The Balanced Bridge fund is now ahead of its benchmark for the year to date.

Investor confidence has ebbed and flowed amidst a constant stream of news such as the focus on sovereign debt default in Europe, the oil spill in the Gulf of Mexico, new Prime Ministers in the UK and Japan and China relaxing its currency policy. The 'noise' in the market has become akin to a football stadium full of Vuvuzelas, the challenge being to screen out the distractions and focus on what is

important. Investors' attention is shifting towards the structural headwinds facing the global economy. Indeed sentiment is now reflecting increasing concerns about deflation and possibly a double dip recession.

Throughout the euphoria of the market's cyclical rebound, which started in March 2009 fuelled by the unprecedented, globally synchronised, stimulus put in place by the authorities, we have retained a relatively cautious approach to investment. Our key theme, 'All Change', highlights our belief that a protracted period of sub par growth is likely to ensue given the amount of 'deleveraging' required. This has prompted us to invest in a number of high quality, relatively defensive equities offering good dividend yields. These companies have attractive valuations, many having lagged the market's rally, and are now beginning to outperform as the sustainability of the aforementioned cyclical rally is

called into question. Our overweight positions in telecoms, utilities and healthcare contributed positively to the fund's performance over the quarter. The underweight position in financials was another significant positive factor.

The Balanced Bridge fund has exposure to gold through direct holdings in gold companies, Barrick Gold and Newcrest Mining. We have written before about the rationale for owning these, principally gold is likely to benefit from concerns over sovereign debt and currency debasement. Recent unease about the possibility of default of Greek government debt (which was downgraded to junk status) and Spanish debt (which lost its 'AAA' rating) have led to investors to seek the perceived safety of gold bullion, driving the price higher. Thus the fund's gold exposure, which was increased in April, was responsible for a significant part of the outperformance over the quarter.

The austerity measures announced in the recent emergency budget were well received by the Gilt market. The UK has a longer debt maturity profile than its European peers, meaning that the UK Government's near term refinancing needs are relatively modest. Given these positive dynamics, we added to the Gilt weighting in the fund by increasing the 2019 and 2022 bond holdings and purchasing the 2027 bond. The fund continues to hold a combination of Gilts, corporate bonds, in which we have taken some profits, and a small allocation to high yield bonds.

We remain positive about the Far East and Emerging markets given our Global Realignment and Developing Economies themes. These areas continue to be one of the primary sources of capital growth, in comparison with the more defensive stocks alluded to earlier. Last quarter the fund benefited from strong returns from HTC Corporation (a Taiwanese maker of smart phones), Bangkok Bank, Rossi Residential (a Brazilian house builder), Natura Cosméticos (a Brazilian consumer goods producer), and shares in Parkway Holdings (a Singaporean based hospital provider) which appreciated sharply towards the end of the quarter after the company received a bid approach.

The holding in Sprint Nextel was another significant contributor to performance. The merged US mobile operator has gradually won over its dissenters and the share price spiked on the

release of a positive broker note, which provided an opportunity to trim the holding.

Readers will be well acquainted with the travails of BP which have dominated the headlines. BP is a long standing investment and the fund also owns Transocean, the rig operator involved in the Deepwater Horizon explosion. Both stocks have been poor performers. Newton has conducted numerous meetings with senior BP management during the course of the incident. The phasing of the liability payments and the current assumptions about the likely cost of the incident, along with underlying cash generation of the business, has led us to retain BP within the portfolio. Similarly we feel that Transocean is oversold but we recognise that there still remain significant risks to both companies and, at times like these, fundamental financial analysis can be overshadowed by other factors such as political interference. We continue to monitor the situation closely.

At the beginning of the quarter, prior to the dramatic fall in European markets, the Fund's European exposure was reduced through the sales of Acciona (the only Spanish holding), Bilfinger Berger and Air Liquide. The proceeds were reinvested in other areas such as Mapletree Logistics trust (Asian focused logistics real estate investment trust), Ziggo 8% 2018 (high yield bond issued by the largest cable operator in the Netherlands) and UK Commercial property Trust. The remaining exposure to the Euro was further reduced through currency hedging. Currency movements will no doubt continue to play a significant role in determining returns.

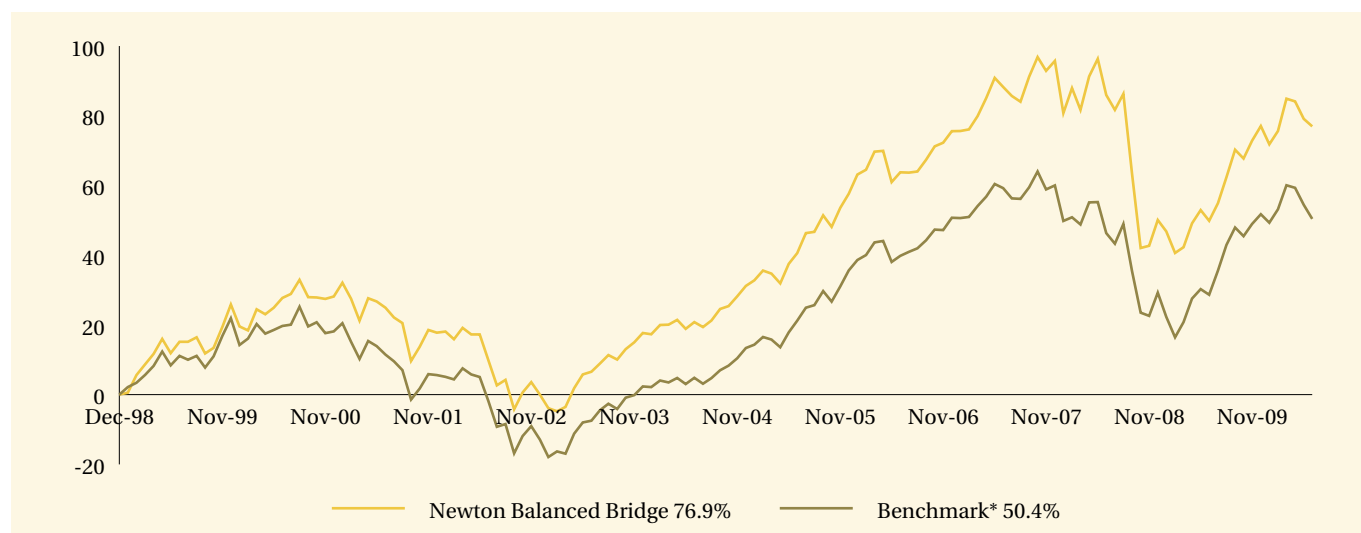
Confidence is fragile. This is understandable given the binary outcomes possible. Sentiment will no doubt continue to lurch back and forth as investors are swayed by different sides of the arguments – inflation versus deflation, macro versus micro, risk on versus risk off! We remain cautious but invested, guided by our themes, alert both to the risks out there and also to the opportunities likely to arise.

Fund management team:

Caroline Tye and Julie-Ann Ashcroft

Long-term performance

Performance since launch



	2001	2002	2003	2004	2005	2006	2007	2008	2009	YTD 2010
Balanced Bridge	-15.1	-15.1	17.7	11.5	20.2	11.4	11.5	-23.3	17.9	-0.1
Benchmark*	-10.6	-17.5	17.5	10.8	19.6	11.1	6.1	-19.2	17.4	-0.9

Discrete past performance - percentage change

From	30/06/05	30/06/06	30/06/07	30/06/08	30/06/09
To	30/06/06	30/06/07	30/06/08	30/06/09	30/06/10
Newton Balanced Bridge	16.5%	14.9%	-1.2%	-19.4%	18.1%

Source: Lipper, WM & Datastream, as at 30 June 2010. Calculation basis: Sterling, total return, bid to bid, without initial charges, net income reinvested, net of management fees.

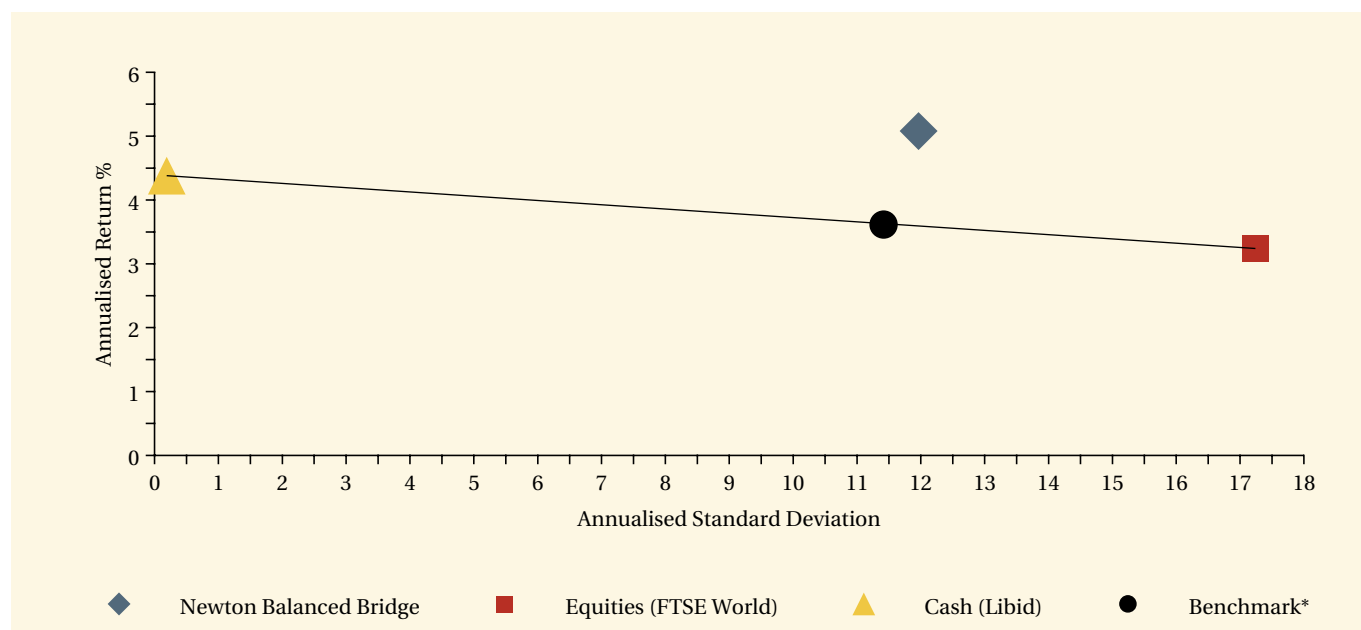
*The benchmark to 31 March 2009 was WM PCI Balanced. Thereafter it is the Newton Balanced Composite. The Newton Balanced Composite benchmark comprises 40% FTSE All Share, 20% FTSE World ex UK, 15% FTA Govt All Stocks, 15% ML Sterling Non-Gilts & 10% 1 month £ LIBOR.

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 cash, world equities and the benchmark with slightly higher volatility than that of the benchmark. The launch date of the fund was 23 December 1998.

Risk and return since launch

	Annualised Return	Volatility	Sharpe ratio
Newton Balanced Bridge	5.1%	12.0%	0.1
Benchmark*	3.6%	11.4%	-0.1

Source: Lipper, WM & Datastream, as at 30 June 2010. Calculation basis: Sterling, total return, bid to bid, without initial charges, net income reinvested, net of management fees.

*The benchmark to 31 March 2009 was WM PCI Balanced. Thereafter it is the Newton Balanced Composite. The Newton Balanced Composite benchmark comprises 40% FTSE All Share, 20% FTSE World ex UK, 15% FTA Govt All Stocks, 15% ML Sterling Non-Gilts & 10% 1 month £ LIBOR.

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.

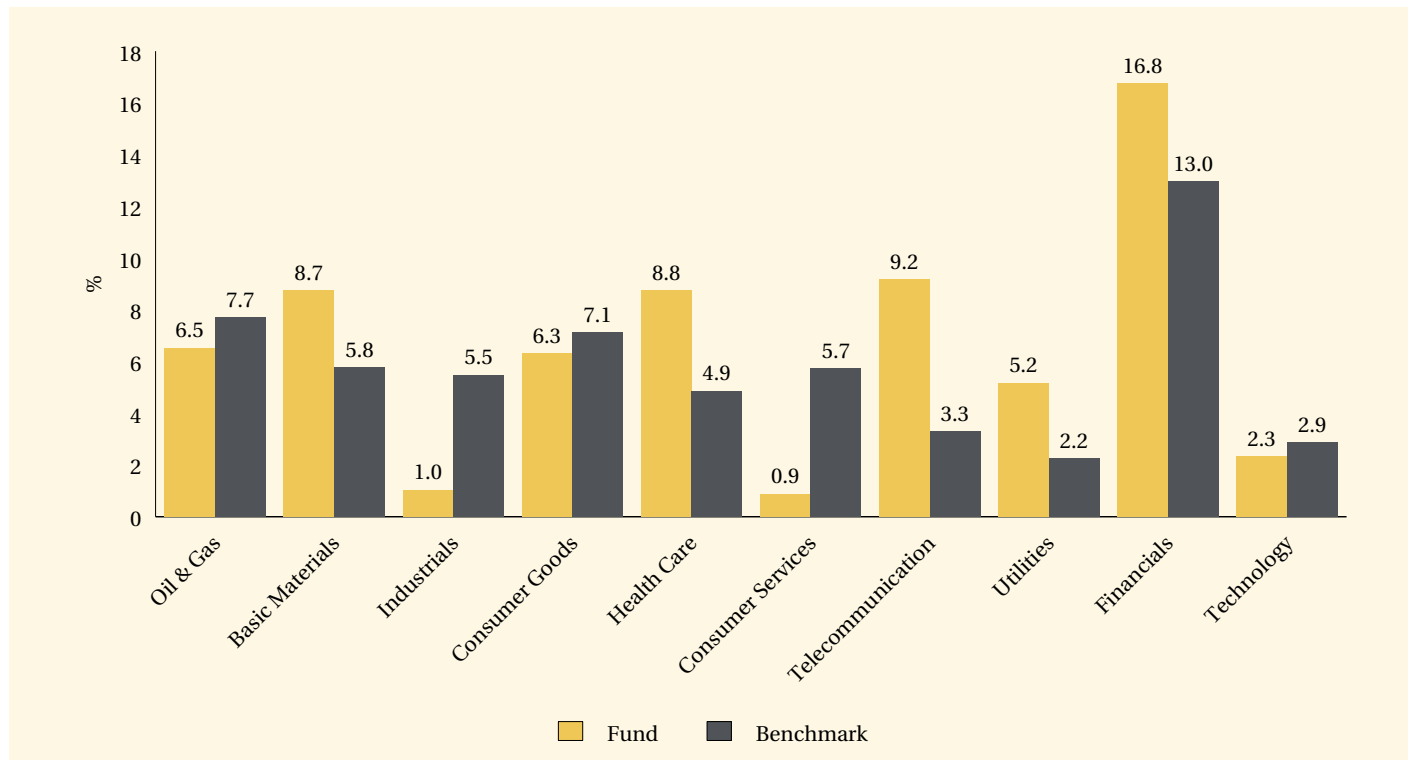
Strategy groups	Representatives from the strategy team, fund managers and research analysts identify global themes and formulate our economic view.
Research team	Global sector analysts, supported by fund managers, identify investment opportunities within the thematic backdrop.
Fund management	Fund managers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

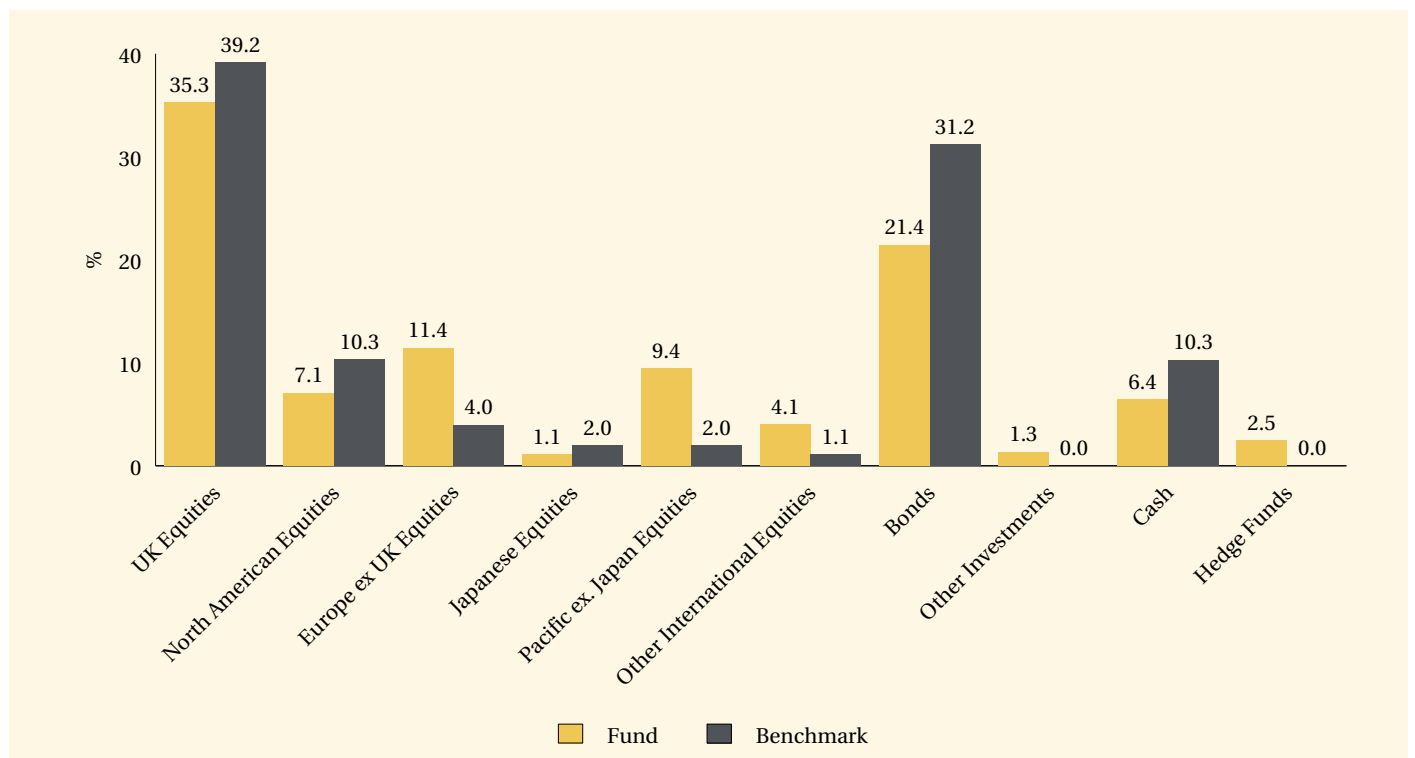
Theme	Factors	Investments
All Change	The popping of the credit bubble has marked an end to the era of rapid growth in private sector debt in the developed world. Structurally impaired financial systems and impending regulatory burdens ensure that credit will be less freely available, and this has profound implications for consumer-driven economies, all asset classes and investment strategies.	AMP, Barrick Gold, GSK, Jardine Lloyd Thompson, Newcrest Mining, Novartis
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 entail the development of Western-style health and social security systems and will involve significant cyclical influences as well as frictions regarding trade policies.	Parkway, Bangkok Bank, Mapletree Logistics, Millicom, Natura Cosmetics, Taiwan Semiconductor Manufacturing Company
Networked World	Although networks have already transformed our lives, the trend remains at a relatively early stage. Rapid increases in bandwidth continue to increase networks' range of uses and their interactivity, which in turn is driving productivity gains. The explosive growth of mobile internet, combined with innovations in sensor technology, will generate profound changes in many industries.	Cisco, Millicom, Sprint, Telekomunikacja Polska, Tele Norte Leste, Vodafone
More Government	State intervention and forms of managed capitalism hold sway over an increasing proportion of global output. With the increasing involvement of governments come more regulation, higher taxes and the prospect, ultimately, of slower growth and higher economic volatility. Local interests will take priority over global interests. The unpredictable nature of state intervention increases the risks in all asset classes.	Barrick Gold, Gilts, QBE Insurance Group, Rossi Residencial, Currency hedging

Fund analysis

Equity weightings by industry



Regional and asset class weightings



Source for all charts: Newton, as at 30 June 2010.

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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