

# Global Growth & Income Fund for Charities

Investment Report - Third Quarter 2010

► A BNY MELLON COMPANY<sup>SM</sup>

**NEWTON**  
The Power of Ideas



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# Fund information

## Long-term track record

The Global Growth & Income Fund for Charities has returned 72.6% since launch (12 November 2001), which is equivalent to 6.3% per annum. This is an outperformance of 0.7% per annum (net of fees) compared to the fund's benchmark. For more detail on the fund's long-term performance, please refer to page 4.

## Aim

The objective of the fund is to optimise total returns for charities in terms of capital growth and income from a portfolio of global equities and fixed interest securities. The minimum target yield (income) is 3% per annum.

## Performance references

20% FTSE Government All Stocks Index; 50% FTSE All Share; 25% FTSE World (ex UK) and 5% 7-day cash (benchmark).

## Risk profile

Suitable for investors with a medium risk profile.

Unit prices as at 30 September 2010

121.16p (Bid price)

122.89p (Offer price)

## Fund facts

Fund size (millions):	GBP 260	Pay dates:	Feb, May, Aug and Nov
Annual management charge:	0.6%	Last distribution:	1.70p per unit
Total expense ratio:	0.74%	ISIN:	GB0031050544
Base currency:	GBP	Sedol:	3105054
Dividend yield:	4.5%		

# Focus on the latest quarter

## Performance over three months

Global Growth & Income	9.2%				
Benchmark	9.6%				
FTSE All Share	13.6%	FTSE W World (ex UK)	8.2%	FTA Govt All Stocks	3.6%

Source: Newton, Datastream & WM, as at 30 September 2010. Calculation basis: Sterling, total return, offer to offer, without initial charges, gross income reinvested, net of management fees.

## Significant transactions

Acquisitions
Hammerson PLC
Rio Tinto PLC
British Land Co. PLC
Telefonica S.A.
MTN Group Ltd

Disposals
Telstra Corp. Ltd
Severn Trent PLC
Vale
WH Smith PLC
Potash Corp. of Saskatchewan Inc.

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

## Fund manager report

*"There is only the fight to recover what has been lost*

*And found and lost again, and now, under conditions*

*That seem unpropitious."*

T. S. Eliot : East Coker

Economies and investment markets continue to experience uncertain times. An enormous variety of stakeholders – politicians, central bankers, industrialists, service providers and investors – appears engaged in a global game of snakes and ladders. Anxieties over the strength of economic recovery, over currency volatility, over sovereign debt and over the sustainability of corporate recovery change places regularly with confidence in better-than-anticipated economic data, in trade expansion, in 'diluted' bank regulation/reform and in robust corporate earnings.

Such mood swings were not meant to take place. After the hundreds of billions of dollars spent on bailing out banks and in providing fiscal stimulus, the global economy might have been expected to demonstrate greater vigour. Instead, OECD growth has been weaker than in previous recoveries, unemployment has remained uncomfortably high and price signals are confusing: commodity prices are rising

'unreasonably' whilst other goods and services remain (surprisingly) competitively priced. The final 'curse' appears to be the potentially premature embrace of austerity measures, by which European governments in particular intend cutting budget deficits, regardless of the threats perhaps posed thereby to economic recovery.

This 'new normal', a phrase used increasingly commonly to describe the sluggish growth in the developed world, the persistence of higher-than-average unemployment and the 'risk-on/risk-off' trading strategies employed by some investors in switching between equities and bonds, has been confounded by the almost universal 'stealth rally' concentrated into the last month of the quarter. This rally has driven up rapidly the prices of the supposedly non-correlated asset classes of bonds, equities and commodities, with resultant strong quarterly returns from the FTSE All-Share Index (+13.6%), the FTSE World (ex UK) Index (8.2%) and UK gilt-edged (3.6%).

Over the quarter, the Fund returned 9.2% (based on the mid-day price) compared to its benchmark return of 9.6%. Interestingly, on an end-of-day basis, when the benchmark return is calculated, the Fund's return, on a similar basis, rises to 9.9%. The beneficial impact on the nine-month return is similar: a 1.7% deficit

(5.4% against 7.1% from the benchmark) becomes 1% when the end-of-day return of 6.1% is taken into account. A dividend of 1.34p per unit has been declared, 3% short of the dividend paid (1.38p) for the equivalent quarter in 2009. It is the manager's intention to make up the difference in the final quarter, so as to be able to deliver an unchanged dividend on 2009.

Mr. Greenspan used to comment on the (surprising) conundrum of bond and equity markets moving in the same direction and to the close correlation between previously disparate assets. The latest quarter's performance presents a similar puzzle. Certainly, lack of belief in sustainable improvement in activity (and fears of emulating Japan's 'lost' decades) have led to bonds rallying to previous peaks. Whilst we are concerned that a bubble may be forming in fixed interest instruments, the disinflationary forces of weakish demand and improving supply suggest that the time has not yet come to reduce significantly exposure to bonds.

Newton's 'world picture' of slow(ing) growth, debt reduction, demographic change and healthy demand from developing economies, both for resources and consumer products, remains unchanged. Sector and stock selection, rather than market choice/ geographical asset allocation, have remained important drivers of return. Newton's overall, relatively defensive, positioning in healthcare, food producers and utilities sometimes acts as a drag on performance but, given uncertainty, remains the preferred approach. Themes continue to drive purchases and sales. 'Population Dynamics' has been recognised by the introduction/ addition of *Carnival*, which has a significant share of the growing cruise market.

Developing world connections have been a major source of value added. The introduction of *Rio Tinto*, prior to signs of recovering, seasonable demand from China, was fortunate. The purchase was financed by the sale of *Vale*, which is less able, owing to geographical distance, to take advantage as easily as *Rio* and *BHP Billiton* of improving demand. *BHP Billiton* was a further source of enrichment to the portfolio via its bid for *Potash of Saskatchewan*, subsequently sold.

Newton believes also that technological change is accelerating once more, on the back of additional, efficiency-improving investment by corporations across the world, on the advance of 'cloud computing' and on the spread of 'smart' telephones. The out-of-

favour *Research in Motion* was purchased to profit from exposure to these trends. Similar thinking lay behind re-organisation of the telephony holdings within the portfolio. *Telstra* was sold and *Millicom* was reduced to fund the purchases of others with emerging markets' exposure, namely *Telefonica* (with a yield almost attractive as that of *Telstra*, but with growth as well) and *MTN*.

There is neither a simple nor a clear way to economic recovery and to market progress. The debate as to whether a 'double dip' (return to recession) can be avoided will be settled only after the event. Similarly, whether inflation or disinflation/ deflation becomes the predominant force remains unknown. Patience sometimes seems the commodity in shortest supply; 'unprecedented' financial conditions cannot be mitigated overnight. Steering a steady course, rather than launching 'QEII' (further quantitative easing), has much to commend it, particularly as the gradual improvement in economic and market conditions seems underappreciated.

Growth has returned to all major economies, developed and developing, although Japan continues to struggle. Monetary conditions remain accommodative. World trade is expected to expand by 13% in 2010. Capital markets have fulfilled their purpose: governments and banks are being refinanced slowly and some new issues continue to find favour. *Petrobras* raised \$67 billion in a rights issue in September, whilst junk bond issuance has returned to levels last seen in 2007. Companies are demonstrating confidence also at the 'micro' level. Merger and acquisition activity has picked up, particularly in the technology sector but, similarly, mining, food, energy companies are using their balance sheets and cash flows to take advantage of often depressed valuations to make acquisitions.

Ironically, of course, increased corporate activity and improved market returns have coincided with publicly-voiced scepticism over the equity markets' ability to deliver longer-term returns superior to property and fixed interest. Whilst it would be foolish not to tread with caution after the recent rise in markets,

*"No profit grows where is no pleasure ta'en,*

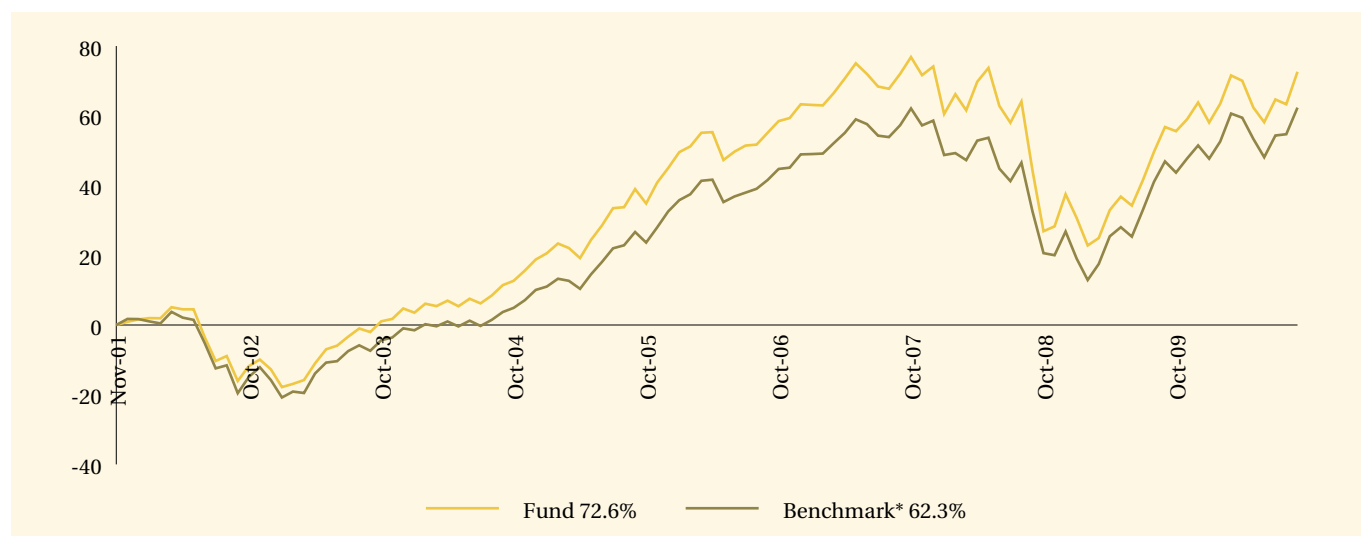
*In brief, sir, study what you most affect."*

Shakespeare: "Taming of the Shrew"

**Fund manager: Jamie Korner**

# Long-term performance

## Performance since launch (%)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	YTD 2010
Fund	-	-14.1	20.0	13.4	22.1	12.6	6.6	-21.0	19.1	5.4
Benchmark*	-	-17.2	17.6	11.1	20.5	12.3	6.5	-20.0	19.5	7.1

## Discrete past performance (%)

From	30/09/05	30/09/06	30/09/07	30/09/08	30/09/09
To	30/09/06	30/09/07	30/09/08	30/09/09	30/09/10
Fund	11.6	10.9	-16.1	8.6	10.1

Performance sourced from: Newton, Datastream, WM & Bloomberg, as at 30 September 2010. Calculation basis: Sterling, total return, offer to offer, without initial charges, gross income reinvested, net of management fees.

\*The benchmark changed on 1 January 2009 to 20% FTSE Government All Stocks Index; 50% FTSE All Share; 25% FTSE World (ex UK) and 5% 7-day cash. Prior to this the benchmark was the WM Total Charities (ex property) Universe.

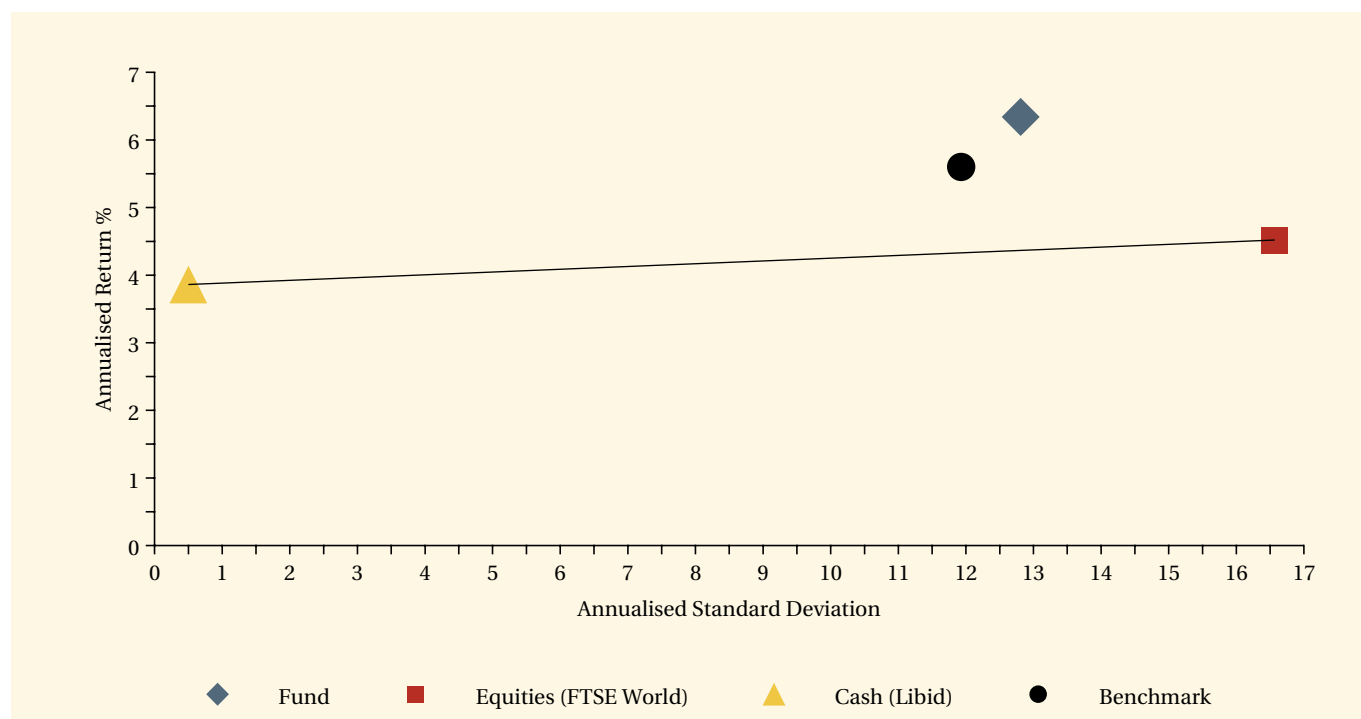
## Risk factors

The performance data shown on this report is past performance; as such it is not a guide to future performance.

Investors should remember that unit trusts should be regarded as long-term investments and that the value of units, and the income from them, can go down as well as up due to stock market and movements in exchange rates. When you sell your investment you may get back less than you originally invested. Where the fund holds bonds, their value is affected by interest rate fluctuations and by changes in the credit ratings of the underlying issuer of the assets.

# Long-term performance - risk and reward

## Fund return and volatility since launch



This chart shows both return and volatility. The Global Growth & Income Fund for Charities has given a higher return than cash, world equities and the benchmark with greater volatility than that of the benchmark. The launch date of the fund was 12 November 2001.

## Risk and return since launch

	Annualised Return	Volatility	Sharpe ratio
Fund	6.3%	12.8%	0.2
Benchmark*	5.6%	11.9%	0.2

Performance sourced from: Newton, Datastream, WM & Bloomberg, as at 30 September 2010. Calculation basis: Sterling, total return, offer to offer, without initial charges, gross income reinvested, net of management fees.

\*The benchmark changed on 1 January 2009 to 20% FTSE Government All Stocks Index; 50% FTSE All Share; 25% FTSE World (ex UK) and 5% 7-day cash. Prior to this the benchmark was the WM Total Charities (ex property) Universe.

# 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.

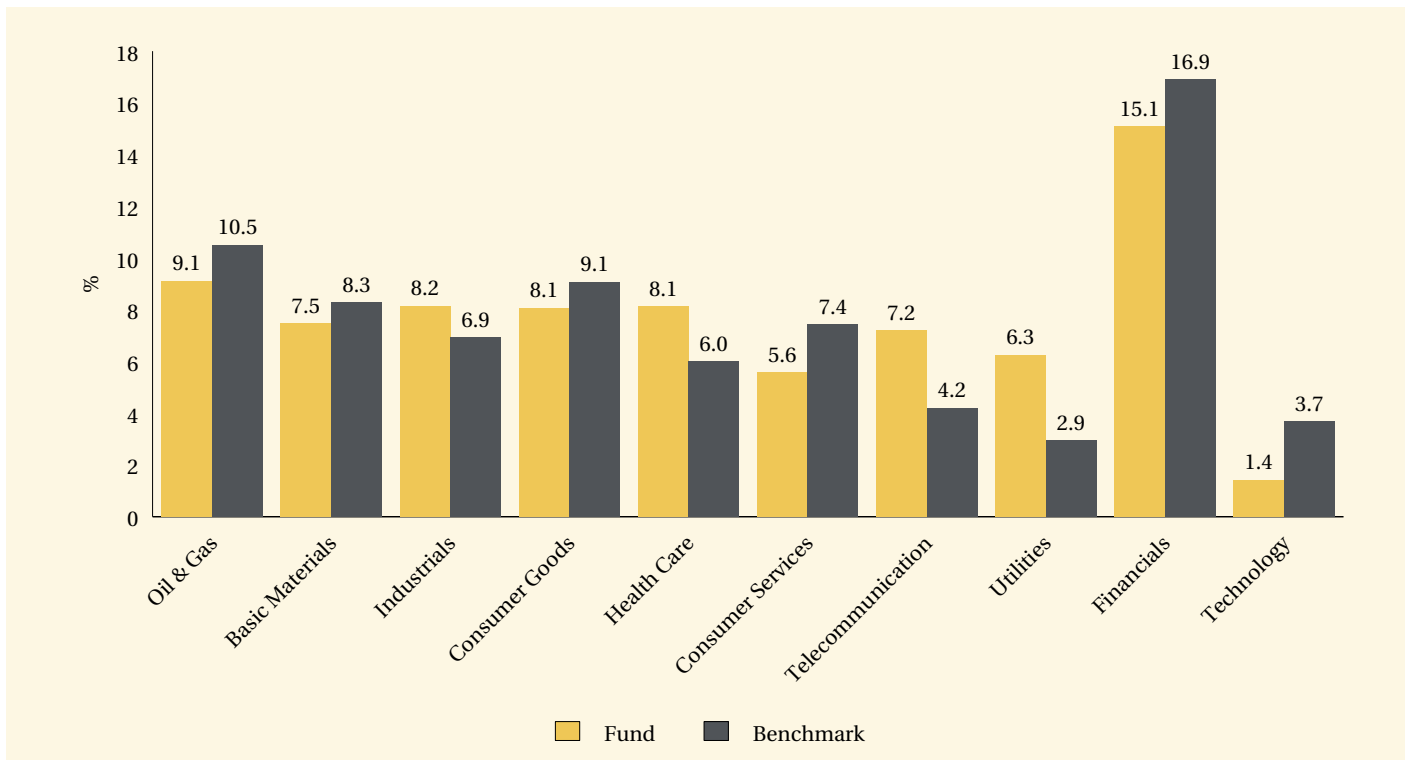
Strategy groups	Representatives from the strategy team, fund managers and research analysts identify global themes and formulate our economic view.
Research team	Global sector analysts, supported by fund managers, identify investment opportunities within the thematic backdrop.
Fund management	Fund managers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

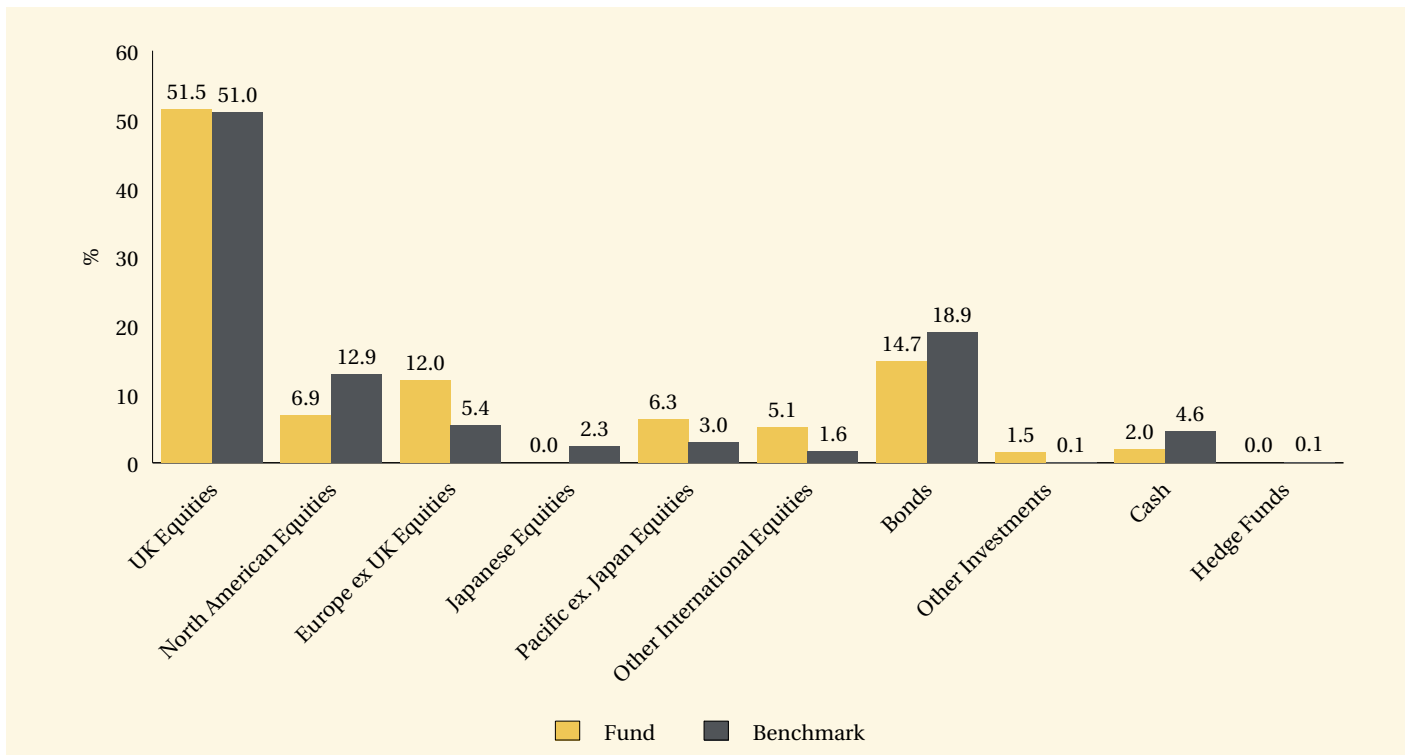
Theme	Factors	Investments
All change	The popping of the credit bubble has marked an end to the era of rapid growth in private sector debt in the developed world. Structurally impaired financial systems and impending regulatory burdens ensure that credit will be less freely available, and this has profound implications for consumer-driven economies, all asset classes and investment strategies.	Newcrest Mining, Centrica, Unilever, BHP Billiton, Nestle, 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.	PZ Cussons, Noble Group, Unilever, Rio Tinto, Millicom, L'Oreal
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.	Cable & Wireless Communications, Vodafone, Millicom, Advanced Info Service, Taiwan Semiconductor
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.	Go-Ahead Group, Vinci, Newcrest Mining, Telefonica, Rossi Residencial

# Fund analysis

## Equity weightings by industry



## Regional and asset class weightings



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

# Portfolio valuation

	Holding (%)
<b>Equities</b>	<b>81.77</b>
Oil & Gas	9.12
<b>Oil &amp; Gas Producers</b>	<b>8.36</b>
BG Group PLC	0.79
BP PLC	2.30
Royal Dutch Shell PLC	3.57
Statoil ASA	0.70
Total SA	1.01
<b>Oil Equipment Services &amp; Distribution</b>	<b>0.76</b>
Wood (John) Group PLC	0.76
Basic Materials	7.46
<b>Chemicals</b>	<b>1.46</b>
Bayer AG	0.97
Syngenta AG	0.49
<b>Mining</b>	<b>6.00</b>
Anglo American PLC	0.50
BHP Billiton PLC	2.96
Consol Energy Inc	0.47
Newcrest Mining Ltd	1.41
Rio Tinto PLC	0.67
Industrials	8.15
<b>Construction &amp; Materials</b>	<b>0.95</b>
Vinci SA	0.95
<b>Aerospace &amp; Defence</b>	<b>0.54</b>
Cobham PLC	0.54
<b>General Industrials</b>	<b>1.37</b>
Noble Group Ltd	0.60
Swire Pacific Ltd	0.78
<b>Electronic &amp; Electrical Equipment</b>	<b>0.58</b>
Emerson Electric Co	0.58
<b>Industrial Engineering</b>	<b>0.50</b>
IMI PLC	0.50
<b>Industrial Transportation</b>	<b>1.47</b>

# Portfolio valuation

BBA Aviation PLC	0.58
Deutsche Post AG	0.89
<b>Support Services</b>	<b>2.74</b>
Bunzl PLC	0.53
De La Rue PLC	0.51
Diploma PLC	1.19
Experian PLC	0.52
<b>Consumer Goods</b>	<b>8.07</b>
<b>Beverages</b>	<b>1.76</b>
Britvic PLC	0.75
Diageo PLC	1.01
<b>Food Producers</b>	<b>3.35</b>
Associated British Foods PLC	0.89
Nestle SA	0.75
Tate & Lyle PLC	0.90
Unilever PLC	0.81
<b>Household Goods</b>	<b>0.47</b>
Rossi Residencial SA	0.47
<b>Personal Goods</b>	<b>2.49</b>
L'Oreal SA	0.60
Natura Cosmeticos SA	0.66
PZ Cussons PLC	1.23
<b>Health Care</b>	<b>8.12</b>
<b>Health Care Equipment &amp; Services</b>	<b>0.35</b>
Thermo Fisher Scientific Inc	0.35
<b>Pharmaceuticals &amp; Biotechnology</b>	<b>7.77</b>
Abbott Laboratories	0.52
AstraZeneca PLC	1.49
GlaxoSmithKline PLC	2.52
Johnson & Johnson	0.47
Lilly (Eli) & Co	0.62
Novartis AG	0.98
Roche Hldgs AG	0.67
Sanofi-Aventis	0.49
<b>Consumer Services</b>	<b>5.57</b>

# Portfolio valuation

<b>Food &amp; Drug Retailers</b>	<b>0.80</b>
Morrison (WM) Supermarkets PLC	0.80
<b>General Retailers</b>	<b>0.61</b>
Halfords Group PLC	0.61
<b>Media</b>	<b>0.85</b>
United Business Media PLC	0.85
<b>Travel &amp; Leisure</b>	<b>3.32</b>
Carnival Corp	0.47
Compass Group PLC	0.61
Go-Ahead Group PLC	0.69
Greene King PLC	1.07
Singapore Airlines Ltd	0.48
<b>Telecommunication</b>	<b>7.20</b>
<b>Fixed Line Telecommunications</b>	<b>2.16</b>
AT&T Inc	0.63
Cable & Wireless Comms PLC	0.65
Tele Norte Leste Participacoes	0.36
Telefonica SA	0.51
<b>Mobile Telecommunications</b>	<b>5.04</b>
Advanced Info Service PCL	0.76
Millicom Intl Cellular	0.77
MTN Group Ltd	0.48
Vodafone Group PLC	3.02
<b>Utilities</b>	<b>6.26</b>
<b>Electricity</b>	<b>3.65</b>
Drax Group PLC	1.03
Fortum Oyj	0.89
International Power PLC	0.56
Scottish & Southern Energy PLC	1.16
<b>Gas Water &amp; Multiutilities</b>	<b>2.62</b>
Centrica PLC	1.09
National Grid PLC	0.71
Pennon Group PLC	0.60
Severn Trent PLC	0.23
<b>Financials</b>	<b>15.10</b>

# Portfolio valuation

<b>Banks</b>	<b>5.00</b>
Banco Santander SA	0.50
DBS Group Holdings Ltd	0.87
HSBC Holdings PLC	2.48
Standard Chartered PLC	1.16
<b>Nonlife Insurance</b>	<b>3.20</b>
Amlin PLC	1.01
RSA Insurance Group PLC	1.26
Zurich Financial Services AG	0.94
<b>Life Insurance</b>	<b>2.84</b>
Aviva PLC	1.26
Prudential PLC	0.56
Standard Life PLC	1.02
<b>Real Estate Investment Trusts</b>	<b>1.49</b>
British Land Co PLC	0.50
Hammerson PLC	0.99
<b>Financial Services</b>	<b>1.90</b>
AMP Ltd	0.49
Close Brothers Group PLC	0.79
ICAP PLC	0.62
<b>Equity Investment Instruments</b>	<b>0.66</b>
Montanaro UK Smaller Co IT PLC	0.66
Technology	1.42
<b>Technology Hardware &amp; Equipment</b>	<b>1.42</b>
Cisco Systems Inc	0.55
Research In Motion Ltd	0.36
Taiwan Semiconductor Manufact	0.52
Unitised / Structured Investments (Equities)	5.30
<b>North America</b>	<b>1.10</b>
Findlay Park PLC American Smaller Cos (USD)	1.10
<b>Europe ex UK</b>	<b>0.70</b>
JPMorgan Euro Smaller Cos Tst	0.70
<b>Pacific ex Japan</b>	<b>1.14</b>
First State Investments (UK) Asia Pacific 'B' Shs (Acc) NAV	0.61
First State Investments (UK) Asia Pacific Leaders 'B' (Acc)	0.53

# Portfolio valuation

<b>Other / Non Region Specific</b>	<b>2.36</b>
Findlay Park Funds PLC Latin American USD Fund (Inc)	1.12
First State Investments (UK) Global Emerging Mkts 'B' (Acc)	0.55
JPMorgan Emerging Markets IT	0.69
<b>Bonds</b>	<b>14.74</b>
<b>Government Bonds</b>	<b>3.78</b>
<b>UK Bonds</b>	<b>2.88</b>
Treasury 4.25% Stk 7/06/2032	0.83
Treasury 4.25% Stk 7/03/2036	0.61
Treasury 4.75% Stk 7/03/2020	0.69
Treasury 4% Stk 7/3/2022	0.74
<b>Overseas Bonds</b>	<b>0.90</b>
Germany (Fed Rep) 4% Bds 4/01/2037 EUR0.01	0.90
<b>Corporate Bonds</b>	<b>10.96</b>
<b>UK Corporate Bonds</b>	<b>10.11</b>
AT&T Inc 5.875% Bds 28/4/2017 GBP50000	0.45
Barclays Bank PLC 6% Bds 29/06/2049 GBP10000	0.41
BASF SE 5.875% Bds 31/03/2017 GBP50000	0.68
Cable & Wireless PLC 8.75% Bds 6/8/2012 GBP(VAR)	0.33
Centrica PLC 5.125% Bds 10/12/2014 GBP	0.44
Close Brothers Group PLC 6.5% Bds 10/02/2017 GBP	0.51
Daily Mail & General Trust PLC 7.5% Bds 29/3/2013 GBP10000	0.46
GE Capital UK Funding 5.875% Bds 4/11/2020 GBP2000	0.73
Go-Ahead Group PLC 5.375% Bds 29/09/2017 GBP	0.54
HSBC Bank PLC 5.75% Bds 27/6/17 GBP1000 EMTN	0.42
John Lewis PLC 6.125% Bds 21/01/2025 GBP	0.21
Land Securities Capital Mkts 5.292% Nts 28/11/2015 GBP A2BR	0.42
LBG Capital No.1 PLC 7.5884% Bds 12/05/2020 GBP1000	0.14
LBG Capital No.2 PLC 9.334% Bds 07/02/2020 GBP1000	0.33
Motability Operations Group 5.25% Bds 28/09/2016 GBP	0.44
National Australia Bank Ltd 5.125% Bds 09/12/2021 GBP	0.64
QBE Insurance Group Ltd 6.125% Bds 28/9/2015 GBP	0.29
Rabobank Cap Funding Trust IV 5.556% Perp 31/12/2049 Reg'S	0.49
Reed Elsevier Investment 7% Bds 11/12/2017 GBP50000	0.48
Scottish & Southern Energy PLC 5.75% Bds 05/02/2014 GBP	0.32
Telefonica Emisiones SAU 5.289% Bds 09/12/2022 GBP50000	0.56

# Portfolio valuation

Tesco Property Finance 3 PLC 5.744% Bds 13/04/2040 GBP	0.55
Yorkshire Building Society 5.649% Perp 29/03/2049 GBP	0.29
<b>Overseas Corporate Bonds</b>	<b>0.85</b>
Anglo American Capital PLC 5.875% Bds 17/04/2015 EUR	0.38
BP Capital Markets PLC 6% Bds 17/03/2015 AUD	0.35
CRC Breeze Finance SA 5.29% Bds 8/05/2026 EUR50000	0.11
<b>Property</b>	<b>1.51</b>
Charities Property Fund	0.74
UK Commercial Property Tst Ltd	0.77
<b>Cash</b>	<b>1.98</b>

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