

# Newton Balanced Bridge Fund

Investment Report - First Quarter 2011

► A BNY MELLON COMPANY<sup>SM</sup>

**NEWTON**  
The Power of Ideas



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# Fund information

## Long-term track record

The Newton Balanced Bridge Fund has returned 105.9% since launch (23 December 1998), which is equivalent to 6.1% per annum. This is an outperformance of 1.6% 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. Please note that the frequency of the dividend has increased from semi-annually to quarterly. Please see pay dates below.

## 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 291	Ex dividend dates:	End Jan, Apr, Jul & Oct
Annual management charge:	0.8%	Pay dates:	2 business days before end Mar, Jun, Sep & Dec
Total expense ratio:	0.83%	Last distribution:	0.7977p per unit
Base currency:	GBP	ISIN:	GB0004833660
Dividend yield:	3.5%	Sedol:	0483366

# Focus on the latest quarter

## Performance over three months

<b>Newton Balanced Bridge</b>	<b>1.0%</b>				
Newton Balanced Index	0.9%	ARC £ Steady Growth est.	0.5%	WM PCI Balanced	0.8%
FTSE All Share	1.0%	FTSE W World (ex UK)	2.3%	FTA Govt All Stocks	-0.8%

Source: Lipper, Datastream, ARC & WM, as at 31 March 2011. Calculation basis: Sterling, total return, bid to bid, without initial charges, net income reinvested, net of management fees.

## Major contributors to relative performance

Positive	%
HTC Corporation	0.25
SBM Offshore NV	0.23
Tele Norte Leste Participacoes	0.18
Statoil ASA	0.18
Fresenius Medical Care AG	0.11

Negative	%
BG Group PLC (not held)	-0.18
Britvic PLC	-0.15
Newcrest Mining Ltd	-0.13
Shenguan Holdings Group Ltd	-0.12
Barrick Gold Corp.	-0.12

## Significant transactions

Acquisitions
UK Treasury Gilt 4.25% 7/12/2040
UK Treasury Gilt 2.25% 07/03/2014
Hitachi Construction Machinery Co. Ltd
Total S.A.
Charter International PLC

Disposals
UK Treasury Gilt 4% 7/3/2022
USA Treasury Bonds 1.75% TII 15/1/2028
Dexion Trading Ltd GBP NPV
Sprint Nextel Corp.
Newcrest Mining Ltd (reduce)

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

## Fund manager report

One could be forgiven for imagining that someone had coated the financial markets in Teflon, such has been their ability to shrug off a plethora of negative news. Equity markets have shown remarkable resilience in the face of political, economic and natural adversity. Whilst the Eurozone Sovereign debt crisis rumbles on, unrest and conflict in the Middle East and North Africa has pushed up the price of oil, further exacerbating investors' concerns about inflation amidst rocketing food and input prices, in an environment of ultra-loose monetary policy. The tragic events in Japan and the resulting fears of nuclear contamination following the damage caused by the Tsunami have further added to investors' jitters. Yet amidst this turbulent set of events, UK equities scraped a positive return of 1.0% (FTSE All Share) and overseas equities advanced 2.3% (FTSE World

ex UK) in the first quarter. Given investors scepticism of the authorities' ability to control inflation, bond markets faltered, as demonstrated by the 0.8% fall in the FTSE Government All Stock Index (Gilts). Against this backdrop, the Balanced Bridge Fund out performed its benchmark to deliver a positive return of 1.0% (compared to 0.9%).

The modest headline returns in the first quarter marked some fairly significant swings in Asian and Emerging Market equities. The year began badly for the latter with global investors reallocating capital from emerging markets to developed markets based on a combination of valuation grounds, increased risk aversion caused by geopolitical tensions and concerns over regional policy initiatives to dampen inflation (given that

the cost of food represents a much larger percentage of disposable incomes in the developing world). Nevertheless, whilst we had taken some profits in 2010, our analysis and *global realignment* theme helped maintain our confidence in our exposure to these markets and the Fund benefited from the strong reversal of this trend in March.

The renewed strength in Asian and Emerging markets in March was one factor that helped the performance of the fund during the quarter. The moderate exposure to fixed interest securities, where the fund is predominantly invested in corporate bonds including the high yield segment, was another. However, the biggest contributor to performance was the strong returns from some of the technology stocks held, playing our *networked world* theme. In particular, HTC, which has quadrupled in value since its initial purchase, rose over 20%, and was trimmed towards the end of the quarter on the back of this strong performance. The weighting in technology was maintained by the purchase of EMC, a global IT company which provides systems software (including security) and services for the management of business data and is in the forefront of “cloud computing”. Telecommunication companies positioned in emerging markets also performed well and the fund benefited from its holdings of Tele Norte Leste (Brazil), Telekomunikacja Polska (Poland) and Advanced Info Services (Thailand). It was felt that Sprint no longer has a place within this fund and rumours of an acquisition triggered a strong rally that provided a good exit point.

Given the rise in the price of oil, it is no surprise that the oil and gas sector was also a key contributor to the Fund’s performance and there were strong returns from both Statoil and SBM Offshore. A small weighting in Lukoil was purchased to augment the oil and gas exposure. Despite many years passing since the events surrounding Yukos, investors concerns about corporate governance continue to linger and have resulted in Russian Oil stocks effectively trading at a ‘Russian discount’. We believe the stock looks sufficiently inexpensive to be attractive given it is a beneficiary of rising oil prices stemming from the troubles in the Middle East and North Africa.

Foreign investors had been increasingly dipping their toes in the Japanese market prior to the earthquake and Tsunami. The experience of the previous Kobe earthquake demonstrated to the world the resilience of the Japanese people in the face of such terrible circumstances and the Japanese market has recovered most of the ground it lost during the initial knee jerk reaction of

investors as they watched events unfold. Whilst the concerns about supply chains remain (as existing inventories are utilised), it became apparent that many quality companies were trading at depressed prices. Under the circumstances Hitachi Construction Machinery was purchased. This company develops and manufactures construction machinery including hydraulic excavators, wheel loaders and bulldozers.

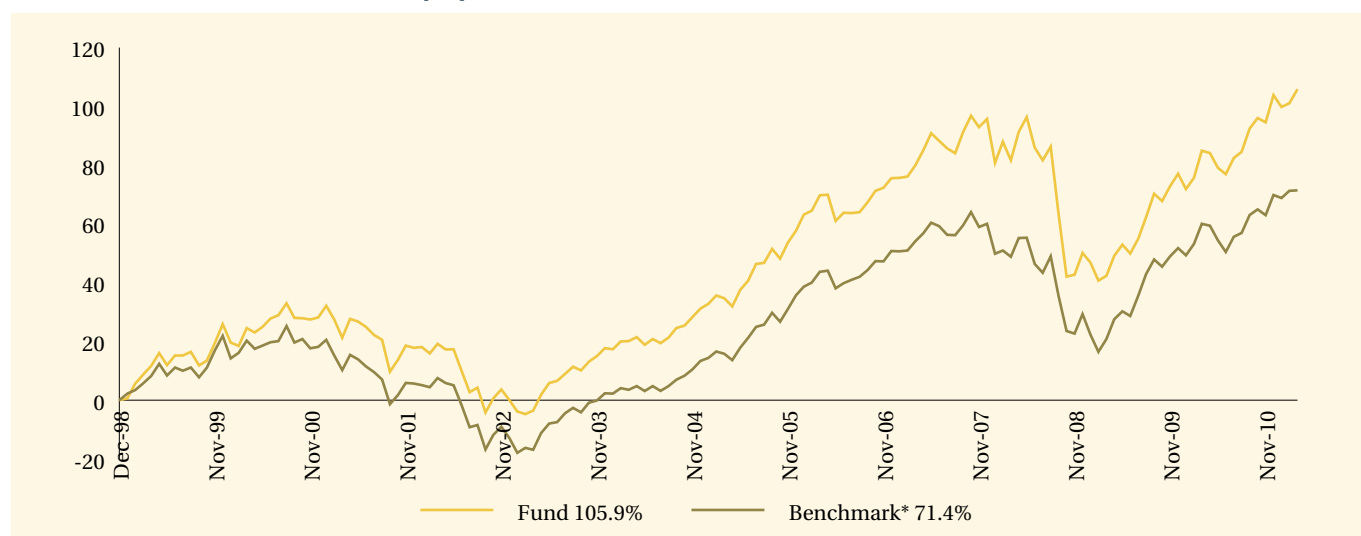
We have already noted the surprising resilience that equity markets have demonstrated of late. The question is what conclusions one should draw from this? One could argue that the current tendency for risk assets to shrug off an increasingly ugly backdrop amply illustrates the palliative properties of ultra loose monetary policies. Investors have, quite rationally, come to expect that whatever crisis emerges, policymakers will be able to put in place a safety net in the form of more ingenious forms of cheap money and/or taxpayer-funded bailouts. Paradoxically, in the bizarre world of highly distorted financial markets, bad news can be perceived as good news if it means more stimulus and therefore higher asset prices in the short term. In the current environment we continue to see a better risk-reward in selected equities than in bonds. Given the economic backdrop we retain healthy positions in commodity and real asset plays such as oil, basic materials and agricultural related stocks. We complement this with a combination of stable growth and more cyclical equities that stand to benefit from our global themes and continue to identify many compelling investment opportunities in an uncertain world.

**Fund management team:**

**Julie-Ann Ashcroft and Caroline Tye**

# Long-term performance

## Performance since launch (%)



	2002	2003	2004	2005	2006	2007	2008	2009	2010	YTD 2011
Fund	-15.1	17.7	11.5	20.2	11.4	11.5	-23.3	17.9	15.1	1.0
Benchmark*	-17.5	17.5	10.8	19.6	11.1	6.1	-19.2	17.4	11.9	0.9

## Discrete past performance (%)

From	31/03/06	31/03/07	31/03/08	31/03/09	31/03/10
To	31/03/07	31/03/08	31/03/09	31/03/10	31/03/11
Fund	6.0	1.0	-21.7	30.0	11.3

Source: Lipper, WM, Datastream & Bloomberg, as at 31 March 2011. 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.

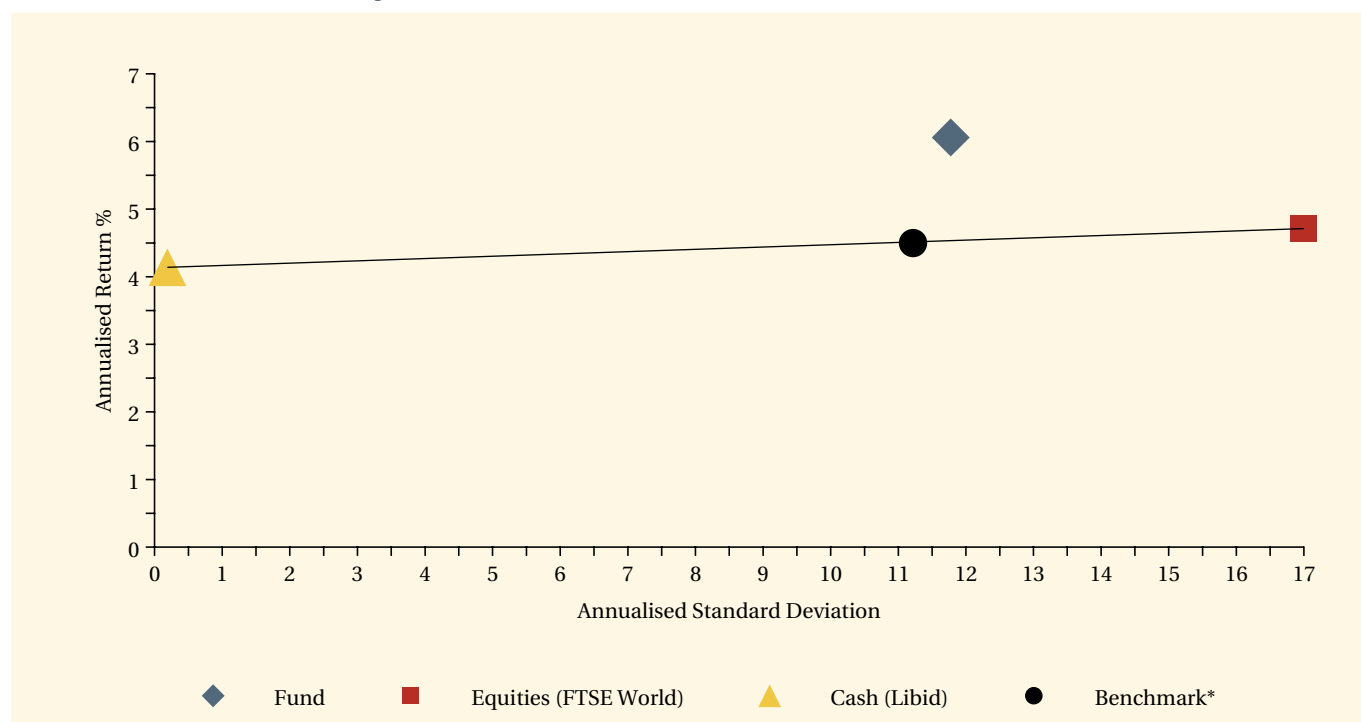
## Risk factors

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. The fund may invest in emerging markets which are, by their nature, higher risk and potentially more volatile than those inherent in established markets.

# 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
Fund	6.1%	11.8%	0.2
Benchmark*	4.5%	11.2%	0.0

Source: Lipper, WM, Datastream & Bloomberg, as at 31 March 2011. 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.

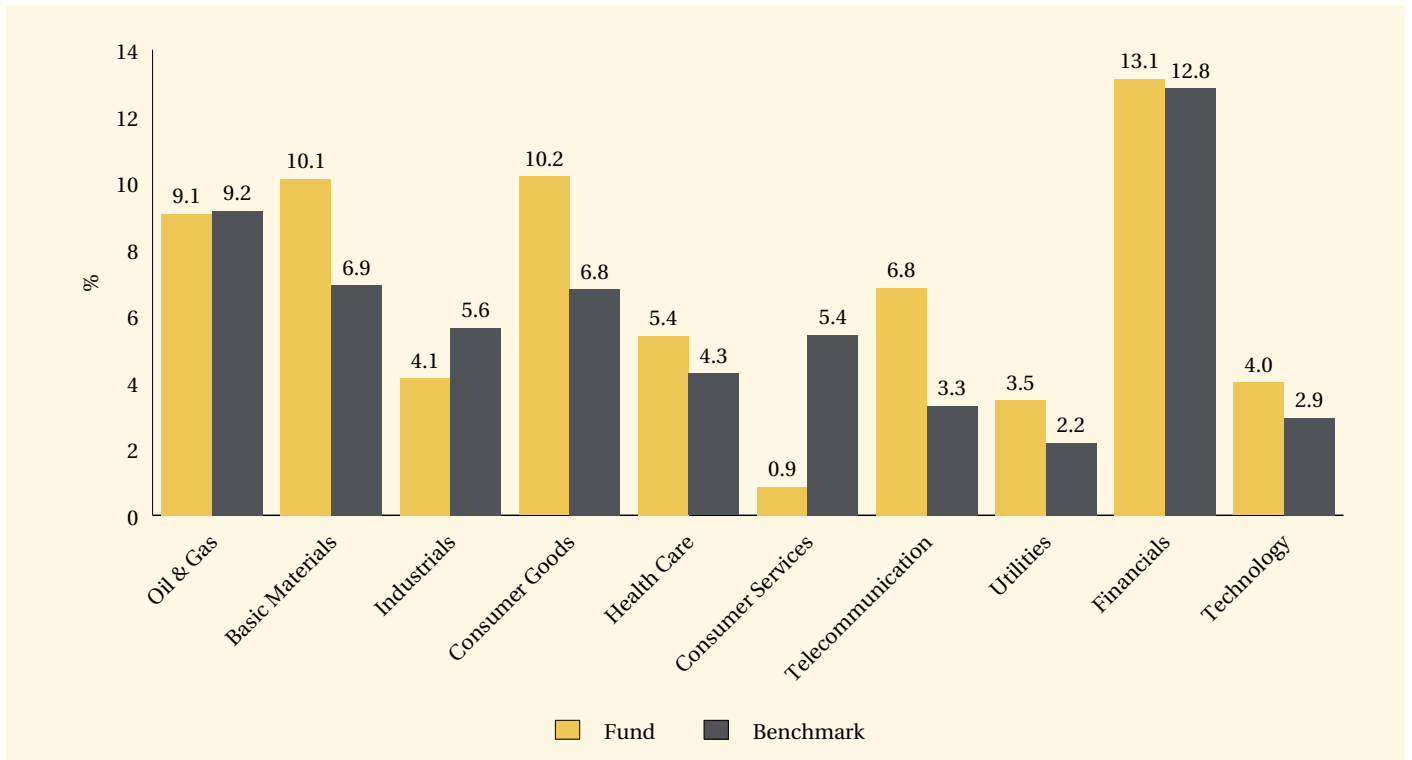
Strategy groups	Representatives from the strategy team, fund managers and research analysts identify global themes and formulate our economic view.
Research team	Global sector analysts, supported by fund managers, identify investment opportunities within the thematic backdrop.
Fund management	Fund managers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

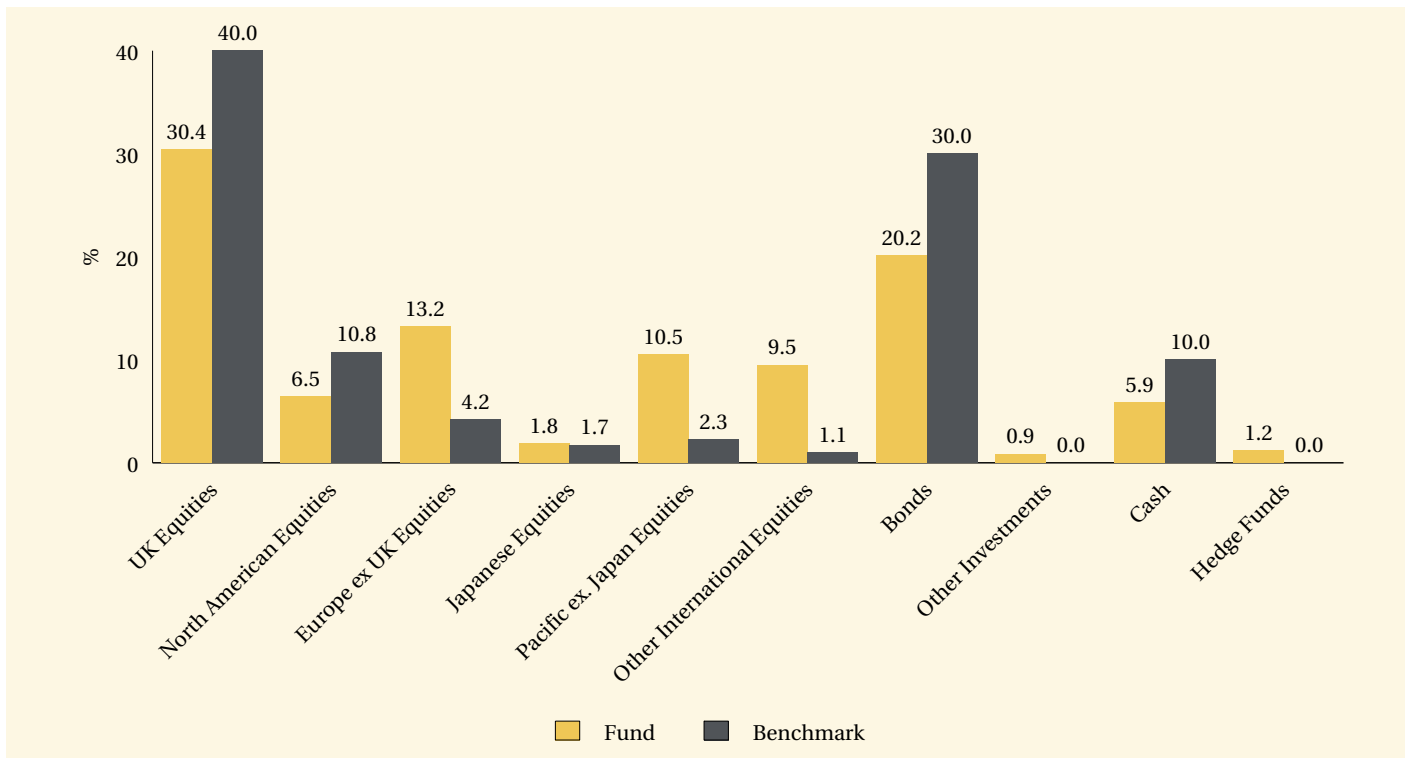
Theme	Factors	Investments
All change	The popping of the credit bubble has marked an end to the era of rapid growth in private sector debt in the developed world. Structurally impaired financial systems and regulatory burdens ensure that credit will be less freely available, and this has profound implications for consumer-driven economies, all asset classes and investment strategies.	Barrick Gold, GSK, infrastructure funds, Jardine Lloyd Thompson, Newcrest Mining, Scottish & Southern
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.	Bangkok Bank, Hutchison Ports, Hypermarcas, Mapletree Logistics, Natura Cosméticos, Petrobras, Rei Agro
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.	Applied Materials, HTC, MTN, Sprint, Telekomunikacja Polska, Vodafone
Earth Matters	Environmental issues have moved to centre stage in the minds of the public and policy makers, and a political consensus is emerging in relation to investment in 'green' technology. It is now almost universally accepted that man-made greenhouse gas emissions are an important contributor to climate change. Current growth trends in the developing world suggest that significant additional pressure on resources and the environment is likely in the future.	Bayer, Siemens, Syngenta

# Fund analysis

## Equity weightings by industry



## Regional and asset class weightings



Source for all charts: Newton, as at 31 March 2011.

# 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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