

# Global Growth & Income Fund for Charities

Investment Report - Third 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 Global Growth & Income Fund for Charities has returned 73.3% since launch (12 November 2001), which is equivalent to 5.7% per annum. This is an outperformance of 0.8% 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 2011

116.50p (Bid price)

118.17p (Offer price)

## Fund facts

Fund size (millions):	GBP 274	Pay dates:	Feb, May, Aug and Nov
Annual management charge:	0.6%	Last distribution:	1.7239p per unit
Total expense ratio:	0.74%	ISIN:	GB0031050544
Base currency:	GBP	Sedol:	3105054
Dividend yield:	4.7%		

# Focus on the latest quarter

## Performance over three months

Global Growth & Income	-7.7%		
Benchmark	-8.8%		
FTSE All Share	-13.5%	FTSE W World (ex UK)	-14.9%
		FTA Govt All Stocks	8.3%

Source: Newton, Datastream & WM, as at 30 September 2011. Calculation basis: Sterling, total return, offer to offer, without initial charges, gross income reinvested, net of management fees. Please note: The Fund's units are priced at noon on each working day; benchmark index values are taken at the end of the day.

## Significant transactions

Acquisitions
Wm. Morrison Supermarkets PLC
Smiths Group PLC
Barrick Gold Corp.
Sage Group PLC
Shiseido Co. Ltd

Disposals
Standard Chartered PLC
Aviva PLC
Swire Pacific Ltd
Amlin PLC
Zurich Financial Services AG

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

## Fund manager report

During a difficult third quarter, stock markets lost ground amid pronounced volatility in share prices; indeed, during the normally quiet month of August, trading in equities and derivatives reached record levels. Meanwhile, the prices of assets perceived to offer refuge increased sharply. Yields on higher-quality government bonds fell markedly (prices increased). The price of gold rose by 7% over the quarter, despite a pronounced decline in September, and the cost of gold's storage escalated after a surge in demand left London, the centre of the bullion market, short of vault space. In currency markets, the Swiss franc appreciated dramatically against the dollar and the euro, before intervention by the Swiss National Bank effectively pegged it to the latter and undermined its allure.

The explanations for disorder on England's high streets in August have been varied and inconclusive, but those for the summer's pandemonium in financial markets seem clearer: the increasing jeopardy of the European debt crisis, the political gridlock in negotiations over the raising of the federal government's debt ceiling (and Standard & Poor's subsequent downgrading of US debt), and mounting evidence of a slowdown in the recovery of the global economy which, according to the International Monetary Fund, is entering a "dangerous phase". This has been exacerbated by the authorities' action in

China to slow their rate of growth, and engineer a soft landing. The consensus view that Chinese infrastructure spending would not be reduced is looking increasingly under pressure, owing to excess capacity lying idle. A greater focus on consumer spending rather than building out infrastructure will be necessary if political targets for GDP growth are to be met.

Europe's debt crisis was a particular focus of concern, with the eurozone's single currency appearing increasingly prone to amplify risks in the region rather than lessen them. As Greece careered ever nearer to a default on its debts, fears grew that Spain and Italy, whose borrowing costs were kept in check only by the bond-buying intervention of the European Central Bank, could be sucked into the vortex of the crisis. There was great anxiety also about the funding of Europe's commercial banks, prompting five of the world's leading central banks to take coordinated action to provide US dollar liquidity and prevent a repeat of events in 2008, when such funding dried up.

Policymakers, particularly in Europe and the US, failed, however, to placate investors through their actions, which were seen widely as administering a series of 'sticking plasters' over certain features of crises, rather than as plausible and far-reaching solutions to the crises as a whole. In the US, the

Federal Reserve announced that economic conditions were likely to warrant keeping interest rates “exceptionally low” until mid-2013.

Our recent contacts with companies, particularly those from the US, would however suggest that, although the picture is mixed, and contain both winners and losers, a substantial number of companies are reasonably sanguine about the future because they are still experiencing top line growth. The main activity in the portfolio has been to enhance the quality of the portfolio, without substantially adjusting the overall equity weighting. We have continued to weed out stocks where the investment case no longer looks sound, but have not been afraid to add new names, or add to existing names, on attractive valuations. Typically, these have been companies with sound balance sheets that pay respectable dividends, have a business model that should survive another recession, and which are now attractively valued.

In contrast, gilts look fairly fully valued. We did establish a position in Norwegian government bonds, where the fundamentals appear very strong. Overall though, relative performance was harmed by being underweight in government bonds. However this was partially offset by our holdings of investment grade bonds which appear to offer reasonable value relative to gilts. In this area we continue to focus on non-financials and reasonably short duration.

We reduced our exposure to certain overseas developing market equities during the quarter. However, we remain overweight in the *healthcare* sector, where valuations appear attractive as does the relative growth that should be generated. The position is also supported by our *healthy demand* theme.

We introduced **Microsoft** to the portfolio as it has recently announced a healthy dividend increase, and has an immensely strong balance sheet. Furthermore it looks to be on a cheap valuation following a long period of underperformance.

We remain cautious of the *financial* sector, and sold **ZFS** owing to a lack of transparency in its European bond holdings as well as **Standard Chartered** and **Swire Pacific**.

We continue to feel that gold mining shares offer good value in an era where there are continued worries over sovereign default and the printing of money by governments and central banks. Against this

backdrop we added to the holding in **Barrick Gold** which appears to be an undervalued situation.

Newton’s *energy economy* theme highlights potential beneficiaries in the energy sector, and we consequently added to the holding in **BP**, which now appears to offer excellent long-term value.

## Conclusion

Given the array of political and economic conundrums, and the breadth of possible means by which authorities might seek to solve them, sustained volatility in financial markets seems almost inevitable. With the concept of a ‘risk-free’ asset undermined by the realisation that risk resides even in the safest securities, investors may struggle to keep faith in the orthodoxies which have guided them in the past.

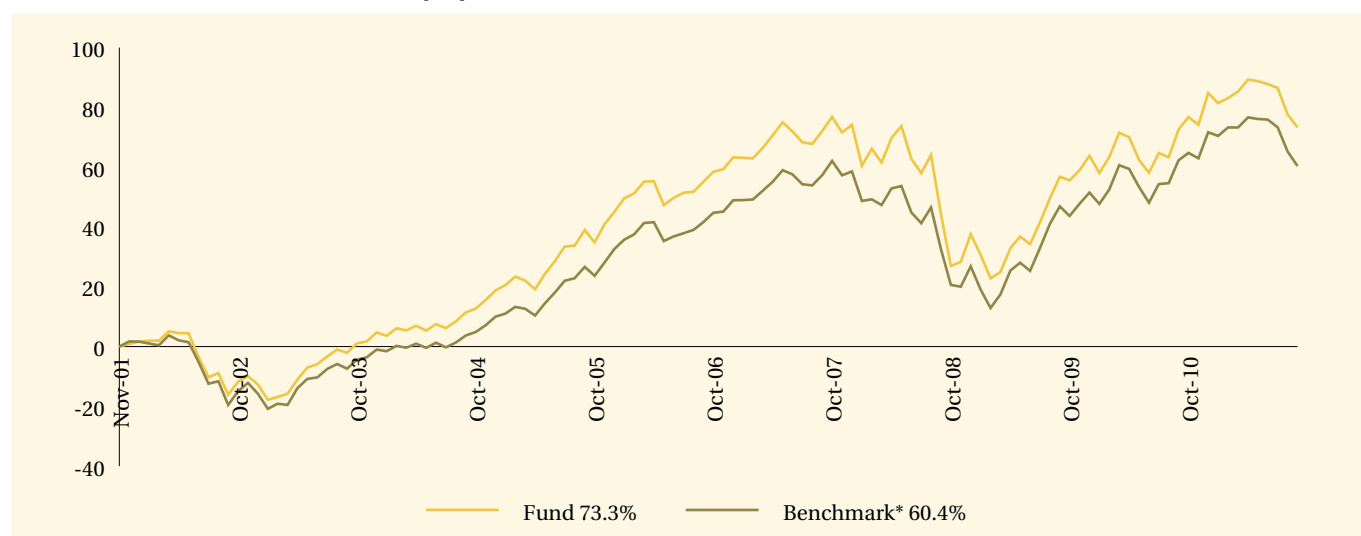
Even where one form of risk is mitigated by the supposed improbability of an issuer’s default, there is doubtless another form of risk in the financing of governments at yields which entrench negative returns once inflation has been taken into account. After all, the greatest risk to an investor is the risk that his investments fall short in fulfilling the income and capital-related objectives which he aspires to meet.

Against the prevailing backdrop, holding cash and retreating to the sidelines of financial markets may have superficial appeal, but in a world of ultra-low interest rates the opportunity cost of such a strategy is likely before long to become unpalatable, particularly if rising inflation erodes the real value of a nominal interest. It is self-evident that risk is the corollary of investment return, and that heightened uncertainty necessitates the availability of greater prospective rewards. Where valuations imply such rewards, as they appear to do selectively among the equities of large, high-quality companies with strong cash flows and robust balance sheets, there should be appealing investment opportunities.

The world is experiencing some momentous changes. Among them are the transition from debt-fuelled growth in the western economies to an age of debt reduction and the ‘realignment’ of the world’s economies, and the shift from a planet abundant in natural resources to one characterised by greater scarcity and a higher cost of energy. To the long-term investor who heeds these fundamental changes, short-term volatility should herald opportunities, as much as risks.

# Long-term performance

## Performance since launch (%)



	2002	2003	2004	2005	2006	2007	2008	2009	2010	YTD 2011
Fund	-14.1	20.0	13.4	22.1	12.6	6.6	-21.0	19.1	12.8	-6.2
Benchmark*	-17.2	17.6	11.1	20.5	12.3	6.5	-20.0	19.5	13.3	-6.6

## Discrete past performance (%)

From	30/09/06	30/09/07	30/09/08	30/09/09	30/09/10
To	30/09/07	30/09/08	30/09/09	30/09/10	30/09/11
Fund	10.9	-16.1	8.6	10.1	0.4

Performance sourced from: Newton, Datastream, WM & Bloomberg, as at 30 September 2011. Calculation basis: Sterling, total return, offer to offer, without initial charges, gross income reinvested, net of management fees. Please note: The Fund's units are priced at noon on each working day; benchmark index values are taken at the end of the day.

\*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.

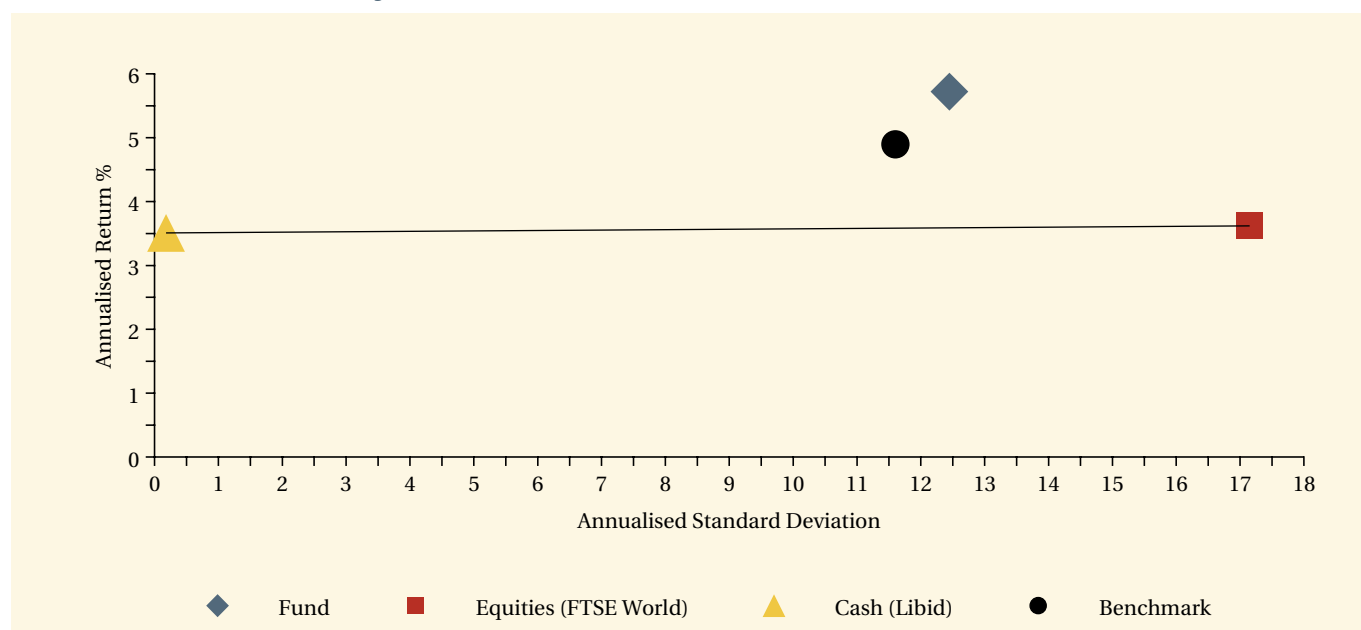
## Risk factors

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	5.7%	12.4%	0.2
Benchmark*	4.9%	11.6%	0.1

Performance sourced from: Newton, Datastream, WM & Bloomberg, as at 30 September 2011. Calculation basis: Sterling, total return, offer to offer, without initial charges, gross income reinvested, net of management fees. Please note: The Fund's units are priced at noon on each working day; benchmark index values are taken at the end of the day.

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# 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.

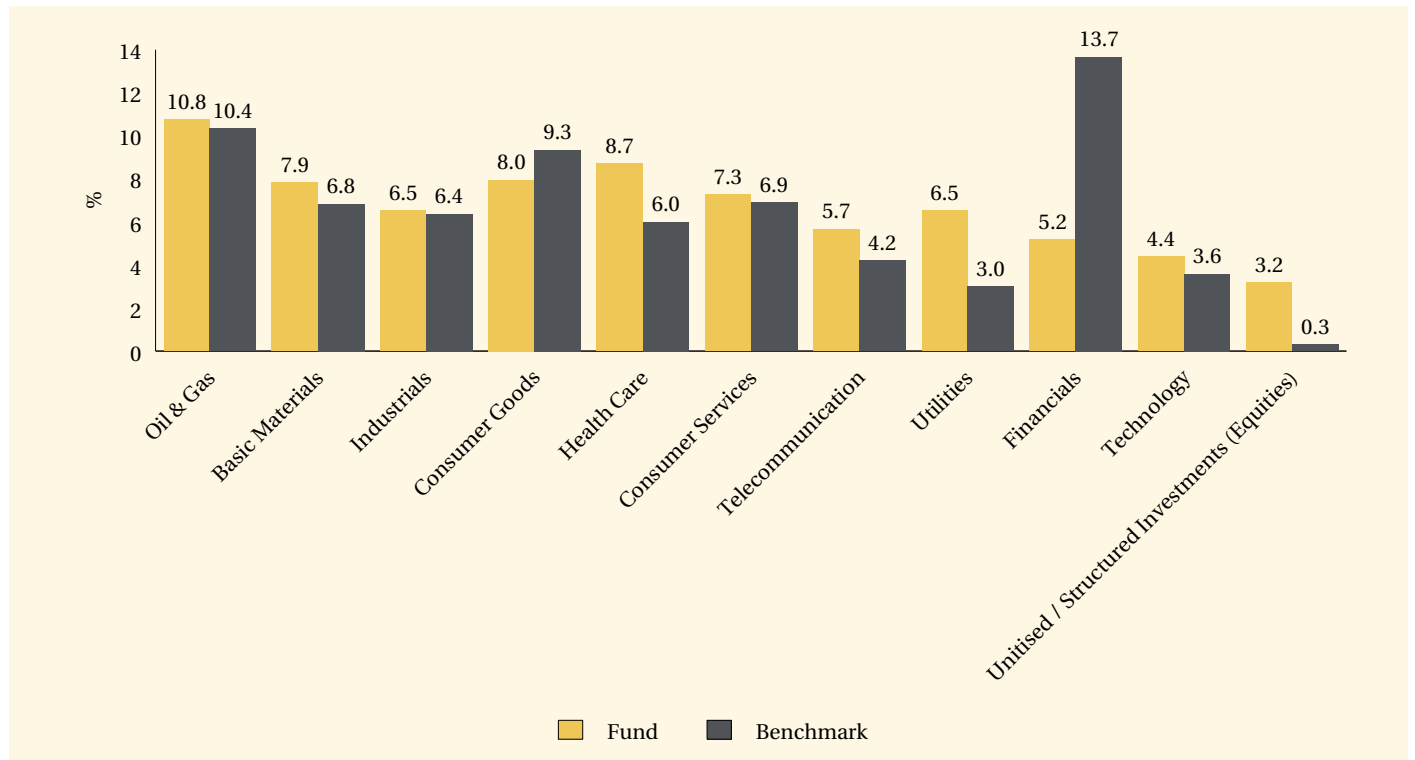
Strategy groups	Representatives from the strategy team, fund managers and research analysts identify global themes and formulate our economic view.
Research team	Global sector analysts, supported by fund managers, identify investment opportunities within the thematic backdrop.
Fund management	Fund managers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

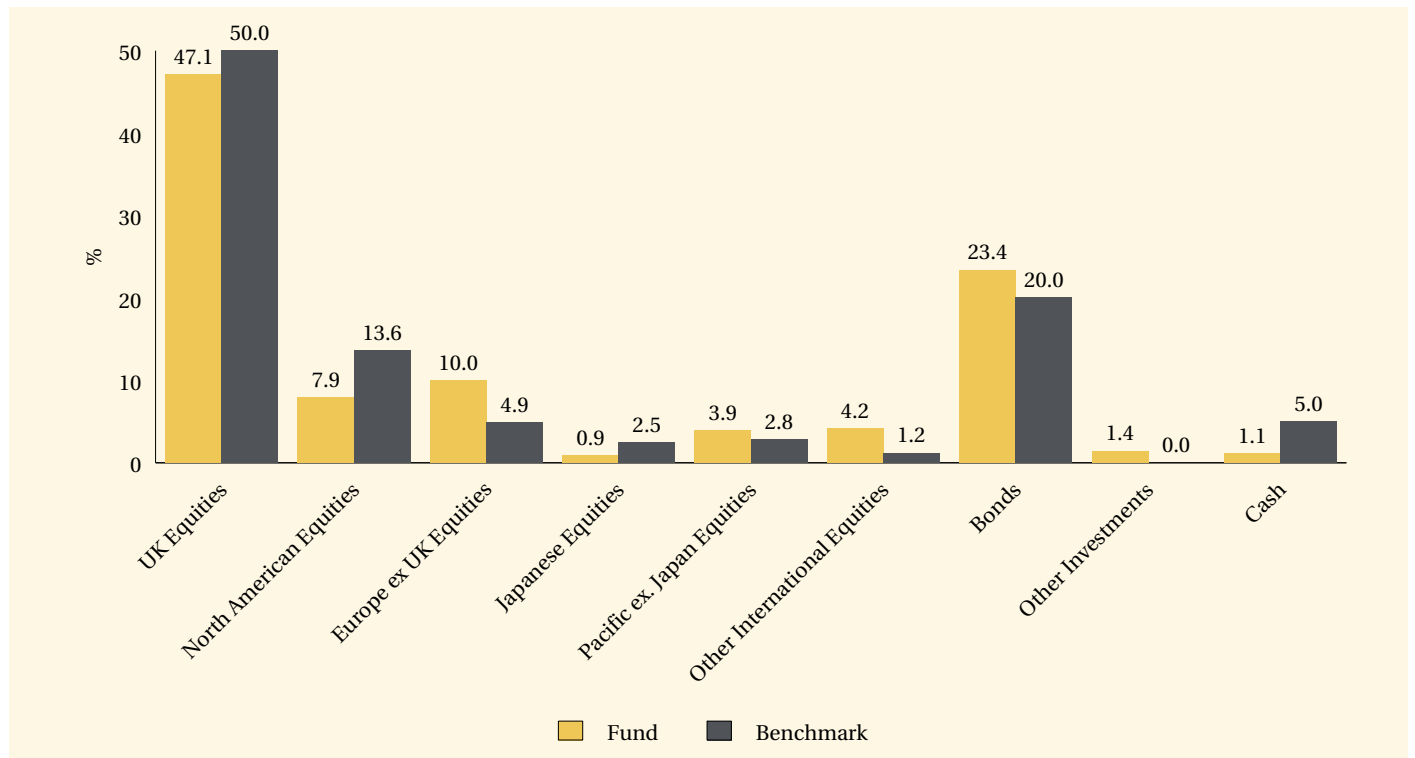
Theme	Factors	Investments
Deleverage	The credit bubble has left many economies carrying levels of debt which materially impair their economic prospects. We anticipate an extended period of relatively low growth and higher economic volatility as debt is reduced to more manageable levels. The scale of the accumulated public and private debt means that how the debt loads are reduced (whether in disorderly fashion or not) and the effect of offsetting policies will be critical for all aspects of the investment outlook.	underweight financials, overweight utilities and healthcare
Global realignment	Western industrialised nations still dominate the world's economic output, wealth, consumption and market capitalisation in US dollar terms, as well as consuming the lion's share of natural resources. The generally stronger growth potential and increasing economic influence of the developing world are progressively challenging this position. The trajectory of this realignment is likely to be volatile and increasingly prone to cyclical divergence.	holding companies like Unilever and direct holdings in emerging economies
Networked world	Networks are now ubiquitous, allowing information to flow between entities that may have previously been unconnected. The technologies being built into these networks are still developing at a rapid pace and the ecosystem of the web is unstable, offering unprecedented opportunities and risks for both web-based and traditional business models.	Advanced Info Service, Taiwan Semiconductor, Sage
Healthy demand	This theme covers a number of aspects. Expanding incomes and changes in lifestyles in the developing world, combined with ageing populations and severe budgetary constraints in the mature economies, fuel strong demand for 'affordable' healthcare solutions. At the same time, increasing recognition of the role of diet in disease (particularly in an era of high food costs) points to potential changes in patterns of food consumption in the West and the adoption of Western-style diets globally.	Johnson and Johnson, Smith and Nephew, Pharmaceuticals

# Fund analysis

## Equity weightings by industry



## Regional and asset class weightings



Source for all charts: Newton, as at 30 September 2011.

# Portfolio valuation

	Holding (%)
<b>Equities</b>	<b>74.04</b>
Oil & Gas	10.76
<b>Oil &amp; Gas Producers</b>	<b>10.20</b>
BG Group PLC	0.89
BP PLC	2.83
ENI SpA	0.50
Royal Dutch Shell PLC	4.24
Santos Ltd	0.42
Statoil ASA	0.67
Total SA	0.65
<b>Oil Equipment Services &amp; Distribution</b>	<b>0.56</b>
Wood (John) Group PLC	0.56
Basic Materials	7.85
<b>Chemicals</b>	<b>2.28</b>
Air Liquide SA	0.55
Bayer AG	0.82
Mosaic Co	0.39
Syngenta AG	0.51
<b>Mining</b>	<b>5.57</b>
Anglo American PLC	0.65
Barrick Gold Corp	0.88
BHP Billiton PLC	1.90
Consol Energy Inc	0.40
Newcrest Mining Ltd	1.26
Rio Tinto PLC	0.48
Industrials	6.54
<b>Aerospace &amp; Defence</b>	<b>0.34</b>
Cobham PLC	0.34
<b>General Industrials</b>	<b>1.16</b>
Siemens AG	0.63
Smiths Group PLC	0.53
<b>Electronic &amp; Electrical Equipment</b>	<b>0.44</b>
Emerson Electric Co	0.44
<b>Industrial Transportation</b>	<b>0.42</b>

# Portfolio valuation

BBA Aviation PLC	0.42
<b>Support Services</b>	<b>4.18</b>
Accenture PLC	0.57
Bunzl PLC	1.19
De La Rue PLC	0.73
Diploma PLC	1.16
Experian PLC	0.52
<b>Consumer Goods</b>	<b>7.95</b>
<b>Beverages</b>	<b>1.40</b>
Britvic PLC	0.23
Diageo PLC	1.17
<b>Food Producers</b>	<b>4.67</b>
Associated British Foods PLC	0.91
Nestle SA	0.89
Rei Agro Ltd	0.40
Tate & Lyle PLC	1.14
Unilever PLC	1.33
<b>Personal Goods</b>	<b>1.88</b>
L'Oreal SA	0.56
PZ Cussons PLC	0.93
Shiseido Co Ltd	0.39
<b>Health Care</b>	<b>8.71</b>
<b>Health Care Equipment &amp; Services</b>	<b>1.06</b>
Smith & Nephew PLC	0.69
Thermo Fisher Scientific Inc	0.37
<b>Pharmaceuticals &amp; Biotechnology</b>	<b>7.64</b>
Abbott Laboratories	0.49
AstraZeneca PLC	1.49
GlaxoSmithKline PLC	2.52
Johnson & Johnson	0.49
Novartis AG	1.01
Roche Hldgs AG	1.00
Sanofi	0.65
<b>Consumer Services</b>	<b>7.28</b>
<b>Food &amp; Drug Retailers</b>	<b>0.79</b>

# Portfolio valuation

Morrison (WM) Supermarkets PLC	0.79
<b>General Retailers</b>	<b>0.80</b>
eBay Inc	0.25
Next PLC	0.55
<b>Media</b>	<b>3.55</b>
Daily Mail & General Trust PLC	0.41
Pearson PLC	1.19
Reed Elsevier PLC	0.95
UBM PLC	0.65
Walt Disney Co	0.35
<b>Travel &amp; Leisure</b>	<b>2.12</b>
Compass Group PLC	0.76
Go-Ahead Group PLC	0.87
William Hill PLC	0.49
Telecommunication	5.67
<b>Fixed Line Telecommunications</b>	<b>1.17</b>
AT&T Inc	0.63
Cable & Wireless Comms PLC	0.31
Tele Norte Leste Participacoes	0.23
<b>Mobile Telecommunications</b>	<b>4.50</b>
Advanced Info Service PCL	1.20
China Mobile (Hong Kong) Ltd	0.60
MTN Group Ltd	0.86
Vodafone Group PLC	1.83
Utilities	6.54
<b>Electricity</b>	<b>2.12</b>
Fortum Oyj	0.70
Scottish & Southern Energy PLC	1.42
<b>Gas Water &amp; Multiutilities</b>	<b>4.42</b>
Centrica PLC	1.09
National Grid PLC	1.30
Pennon Group PLC	1.13
Severn Trent PLC	0.90
Financials	5.17
<b>Banks</b>	<b>1.03</b>

# Portfolio valuation

DBS Group Holdings Ltd	0.66
DNB Nor ASA	0.37
<b>Nonlife Insurance</b>	<b>0.81</b>
RSA Insurance Group PLC	0.81
<b>Life Insurance</b>	<b>1.36</b>
Prudential PLC	0.43
Standard Life PLC	0.94
<b>Real Estate Investment Trusts</b>	<b>0.35</b>
British Land Co PLC	0.35
<b>Financial Services</b>	<b>0.95</b>
Close Brothers Group PLC	0.36
ICAP PLC	0.59
<b>Equity Investment Instruments</b>	<b>0.67</b>
Montanaro UK Smaller Co IT PLC	0.67
<b>Technology</b>	<b>4.39</b>
<b>Software &amp; Computer Services</b>	<b>2.10</b>
Logica PLC	0.29
Microsoft Corp	0.60
Sage Group PLC	1.21
<b>Technology Hardware &amp; Equipment</b>	<b>2.29</b>
Applied Materials Inc	0.35
Canon Inc	0.54
Cisco Systems Inc	0.41
EMC Corp	0.46
Taiwan Semiconductor Manufact	0.54
<b>Unitised / Structured Investments (Equities)</b>	<b>3.19</b>
<b>North America</b>	<b>0.82</b>
Findlay Park Funds PLC American Fund USD (Inc)	0.82
<b>Europe ex UK</b>	<b>0.48</b>
JPMorgan Euro Smaller Cos Tst	0.48
<b>Pacific ex Japan</b>	<b>0.99</b>
First State Investments (UK) Asia Pacific 'B' Shs (Acc) NAV	0.49
First State Investments (UK) Asia Pacific Leaders 'B' (Acc)	0.50
<b>Other / Non Region Specific</b>	<b>0.90</b>

# Portfolio valuation

First State Investments (UK) Global Emerging Mkts 'B' (Acc)	0.36
JPMorgan Emerging Markets IT	0.54
<b>Bonds</b>	<b>23.40</b>
Government Bonds	9.75
<b>UK Bonds</b>	<b>6.49</b>
UK Treasury Gilt 4% 7/3/2022 GBP0.01	1.62
UK Treasury Stock 4.25% 7/06/2032 GBP0.01	1.90
UK Treasury Stock 4.25% 7/03/2036 GBP0.01	1.66
UK Treasury Stock 4.75% 7/03/2020 GBP0.01	1.32
<b>Overseas Bonds</b>	<b>3.25</b>
Norway (Kingdom of) 4.25% Bds 19/05/2017 NOK1000	1.00
Norway (Kingdom of) 4.5% Bds 22/05/2019 NOK1000	1.26
Norway (Kingdom of) 3.75% Bds 25/05/2021 NOK1000	0.99
Corporate Bonds	13.65
<b>UK Corporate Bonds</b>	<b>11.31</b>
AT&T Inc 5.875% Bds 28/4/2017 GBP50000	0.68
BASF SE 5.875% Bds 31/03/2017 GBP50000	0.65
Cable & Wireless PLC 8.75% Bds 6/8/2012 GBP(VAR)	0.30
Centrica PLC 7% Bds 19/09/2018 GBP	0.53
Centrica PLC 5.125% Bds 10/12/2014 GBP	0.82
Close Brothers Group PLC 6.5% Bds 10/02/2017 GBP	0.38
Daily Mail & General Trust PLC 7.5% Bds 29/3/2013 GBP10000	0.79
Daily Mail & General Trust PLC 5.75% Bds 07/12/2018 GBP(Var)	0.73
Firstgroup PLC 6.125% Bds 18/01/2019 GBP(Var)	0.81
Go-Ahead Group PLC 5.375% Bds 29/09/2017 GBP	0.77
HSBC Bank PLC 5.75% Bds 27/6/17 GBP1000 EMTN	0.47
John Lewis PLC 6.125% Bds 21/01/2025 GBP	0.79
Reed Elsevier Investment 7% Bds 11/12/2017 GBP50000	0.79
Scottish & Southern Energy PLC 5.453% Bds 31/10/2049 GBP	0.74
Smiths Group PLC 7.25% Bds 30/6/2016 GBP (Var)	0.68
Tesco Property Finance 3 PLC 5.744% Bds 13/04/2040 GBP	0.57
United Business Media Ltd 6.5% Bds 23/11/2016 GBP	0.82
<b>Overseas Corporate Bonds</b>	<b>2.34</b>
Anglo American Capital PLC 5.875% Bds 17/04/2015 EUR	0.35
BP Capital Markets PLC 6% Bds 17/03/2015 AUD	0.96
CRC Breeze Finance SA 5.29% Bds 8/05/2026 EUR50000	0.11

# Portfolio valuation

Nextel Communications Inc 6.875% Bds 31/10/2013 USD1000	0.71
Origin Energy Finance Limited 7.875% Bds 16/6/2071 EUR	0.20
<b>Property</b>	<b>1.44</b>
Charities Property	0.72
UK Commercial Property Tst Ltd	0.73
<b>Cash</b>	<b>1.12</b>

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