

Newton Falcon Fund

Investment Report - Fourth Quarter 2011

► A BNY MELLON COMPANYSM

NEWTON
The Power of Ideas



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Fund information

Long-term track record

The Newton Falcon Fund has returned 130.9% since launch (13 November 1998), which is equivalent to 6.6% per annum. This is an outperformance of 2.6% 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 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

Since 1 January 2010, the benchmark is 50% FTSE All Share Index, 50% FTSE W World ex UK Index (£). Prior to this it was 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 121	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:	1.55%	Last distribution:	1.9176p per unit (inc units only)
Base currency:	GBP	ISIN:	GB0032585050
Dividend yield:	1.1%	Sedol:	3258505

Focus on the latest quarter

Performance over three months

Newton Falcon Fund	4.1%				
Benchmark	8.0%	ARC £ Equity Risk (est)	4.2%	IMA Global Growth	5.1%
FTSE All Share	8.4%	FTSE World ex UK	7.5%		

Source: Lipper, Datastream & ARC, as at 31 December 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	%
Equifax Inc	0.28
Weatherford Intl Ltd	0.21
Barclays PLC	0.21
HSBC Holdings PLC (not held)	0.21
Medco Health Solutions Inc	0.17

Negative	%
Gildan Activewear Inc	-0.57
HTC Corporation	-0.47
Sprint Nextel Corp	-0.43
Newcrest Mining Ltd	-0.30
Huabao Intl Holdings Ltd	-0.28

Significant transactions

Acquisitions
USA Treasury Bills 0% 19/01/2012
TeliaSonera AB
UK Treasury Bill 0% 09/01/2012
Compass Group PLC
ETFS Physical Gold 0% Secured Note (USD)

Disposals
Barclays PLC
Amadeus IT Holding S.A.
BHP Billiton PLC
Intel Corp.
Weatherford International Ltd

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

Fund manager report

As a year of revolutions and riots drew to a close, scientists were reported to have discovered new Earth-like planets, hundreds of light years away. Investors, however, found only repeated challenges closer to home. The lengthening roll call of deceased despots – to Osama Bin Laden's name were added those of Muammar Gaddafi and Kim Jong-il towards the end of the year – may, superficially, have appeared to make the world a safer place, but financial markets remained capricious and volatile. Many of the world's major financial markets posted gains over the fourth quarter, but these gains belied large fluctuations in asset prices during the closing months of the year.

Most prominent among the challenges was continued uncertainty about the eurozone sovereign debt crisis, and in particular the

persistent failure of authorities to tackle it effectively. The full implications of the crisis continue to unfold, but already it has caused a significant reshaping of European politics. Following earlier changes of administration in Ireland and Portugal, unelected technocrat governments were appointed in Greece and Italy in November, and the UK's veto of a European Union-wide treaty in December seemed likely to alter fundamentally the country's relationship with the rest of the continent.

During a quarter of commotion the major equity markets, with the exception of Japan, nonetheless made significant gains from a low base following the sharp falls suffered in the third quarter. Share prices were supported at least in part by some mildly more encouraging economic data from the

US, as well as by the expansion of the European Central Bank's refinancing facility. UK equities (FTSE All Share) returned 8.4% in the quarter but were down 3.5% for the full year; overseas equities, as measured by the FTSE World Index ex UK, rose 7.5% in the quarter but were down 6.1% for the year in sterling terms.

The Fund's performance in the final quarter lagged the strong recovery in equity markets. More disappointingly we delivered a return that was more negative than the benchmark for the year as a whole, making 2011 the first calendar year since 2001 in which the Fund underperformed. The poor returns from equity markets over the year were largely a result of the challenges posed by unsustainable debt burdens, about which we have written and spoken regularly. So why, you might ask, were we not better prepared? Some important aspects of portfolio positioning were in fact helpful: by way of example, the returns from the Fund's investments in those segments of the equity markets that suffered the most were relatively resilient. This applies in particular to the financial, industrial, and mining sectors, which are amongst the most exposed to the economic cycle and the availability of credit. Offsetting this benefit, however, the performance of a number of individual investments in other areas was very disappointing. Amongst the principal culprits were the consumer goods companies Pandora and Hypermarcas, US telecoms provider Sprint Nextel, and smartphone maker HTC. Like all investors, it is inevitable that some of our investments will turn out badly. In previous years, there were enough positive effects to offset them and deliver good performance, which was sadly not the case this year. We aim, naturally, to learn from these disappointments.

As we move into 2012 we expect a continuation of the lower growth, higher volatility environment that we experienced in 2011. The European Central Bank's lifeline to the European banking system has provided breathing space, but the issues to resolve remain substantial. Austerity measures are likely to hinder economic growth, and the process of signing up to the loss of sovereignty entailed in the revamped "Stability and Growth Pact", the details of which are still unclear, will be fraught and may provide further shocks. The United States have not yet addressed their own huge deficit nor their longer-term liabilities in any meaningful way, and growth in the developing world is slowing after a very strong, credit-assisted cyclical recovery. We used the recovery in equity prices during the quarter to remove some financial and cyclical risk from the portfolio, by selling Barclays, Weatherford, and BHP Billiton. The cash balance in

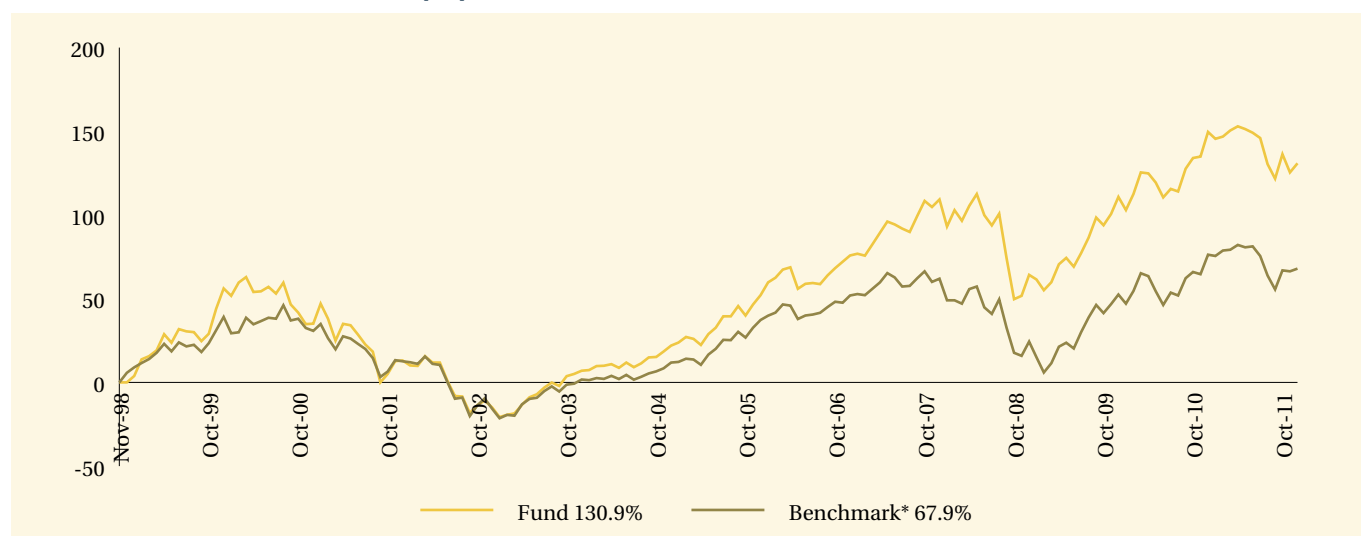
the Fund is close to 10%, some of which we have parked in short-dated Treasury Bills. This will give us the flexibility to reinvest when the volatility that we expect to persist presents us with more attractive buying opportunities.

Fund management team:

Robert Hay and Catriona Blackwell

Long-term performance

Performance since launch (%)



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Fund	-24.8	26.0	14.0	24.6	15.7	19.0	-21.5	28.3	18.5	-7.5
Benchmark*	-25.2	20.8	9.9	22.8	10.6	6.6	-23.2	22.6	15.7	-4.8

Discrete past performance (%)

From	31/12/06	31/12/07	31/12/08	31/12/09	31/12/10
To	31/12/07	31/12/08	31/12/09	31/12/10	31/12/11
Fund	19.0	-21.5	28.3	18.5	-7.5

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

*Since 1 January 2010, the benchmark has been 50% FTSE All Share Index, 50% FTSE W World ex UK Index (£). Prior to this it was 50% FTSE All Share Index, 50% MSCI World ex UK Index (£).

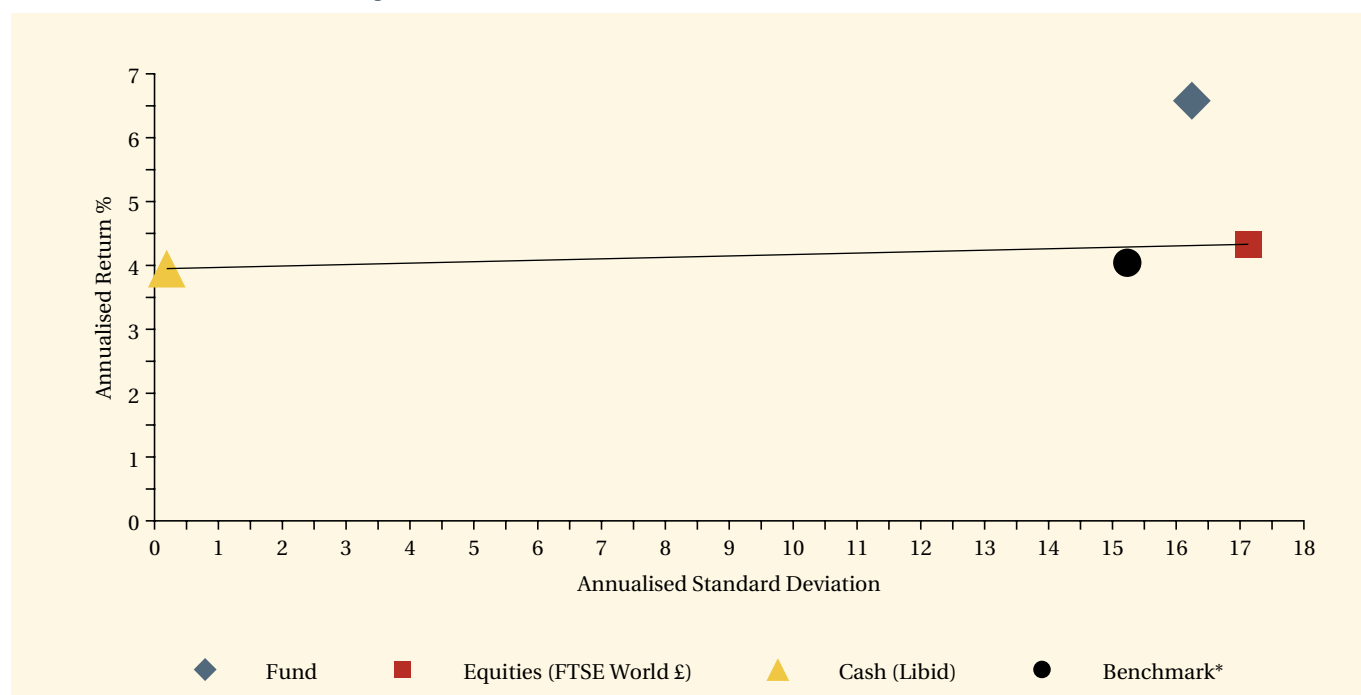
Risk factors

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

Risk and return since launch

	Annualised Return	Volatility	Sharpe ratio
Fund	6.6%	16.2%	0.2
Benchmark*	4.0%	15.2%	0.0

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

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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.

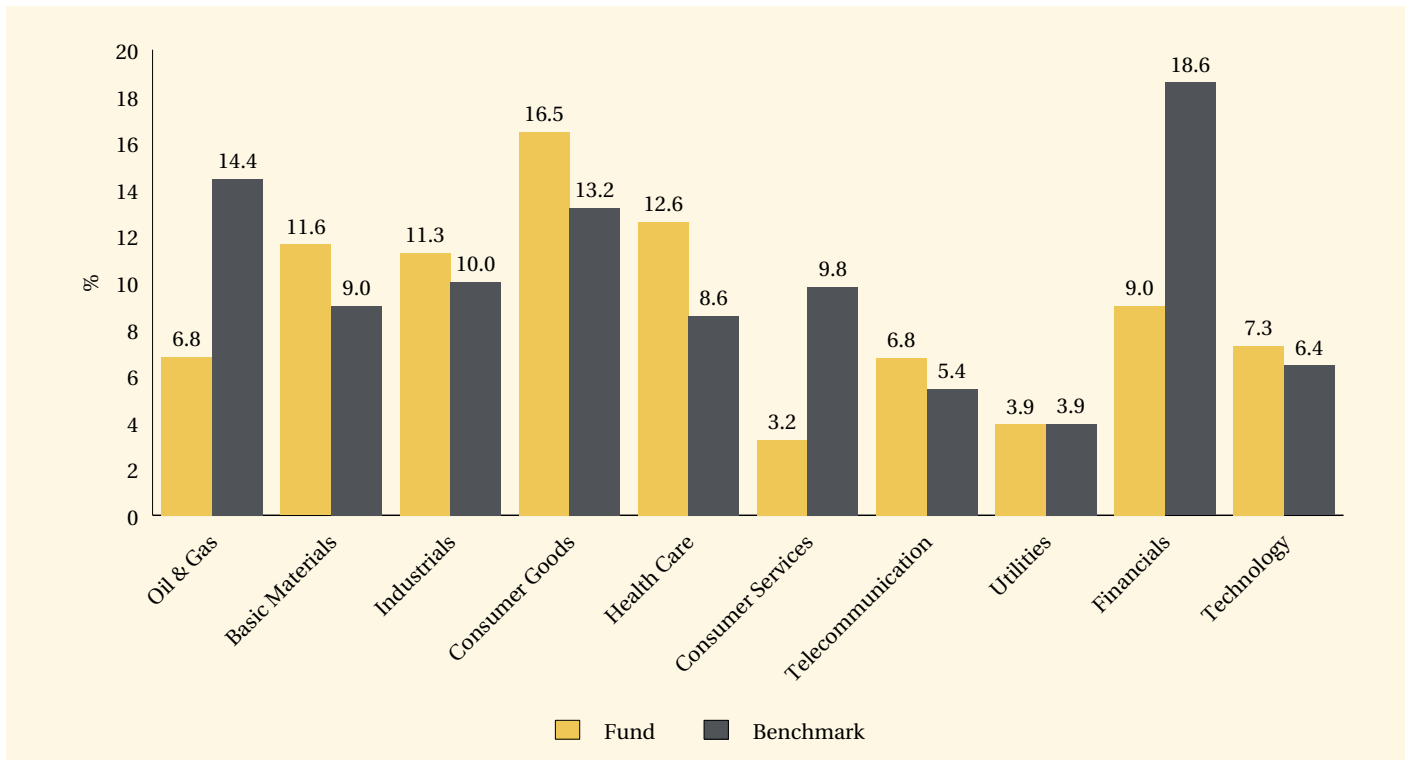
Strategy groups	Representatives from the strategy team, fund managers and research analysts identify global themes and formulate our economic view.
Research team	Global sector analysts, supported by fund managers, identify investment opportunities within the thematic backdrop.
Fund management	Fund managers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

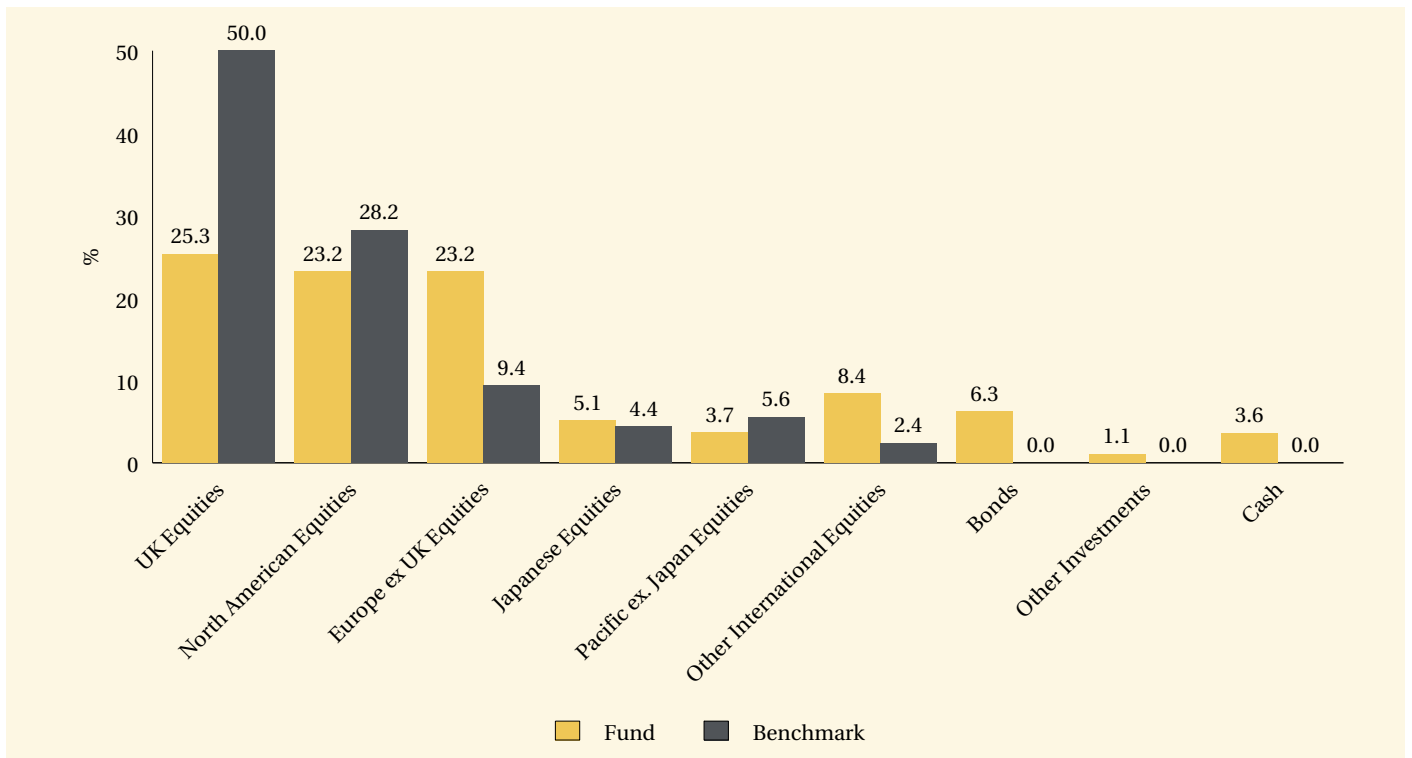
Theme	Factors	Investments
Deleverage	The credit bubble has left many economies carrying levels of debt which materially impair their economic prospects. We anticipate an extended period of relatively low growth and higher economic volatility as debt is reduced to more manageable levels. The scale of 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.	Altria, British American Tobacco, GlaxoSmithKline, Nestle, Novartis, Microsoft, Japan Tobacco, limited exposure to western commercial banks
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.	Bangkok Bank, ABB, China Mobile, Huabao, Gafisa, Inpex, Mosaic, MTN, Yingde Gases
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.	Accenture, HTC, MTN, Ericsson
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.	Fresenius Medical Care, Medco Health Solutions, Novartis, Parexel

Fund analysis

Equity weightings by industry



Regional and asset class weightings



Source for all charts: Newton, as at 31 December 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.

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