

The SRI Fund for Charities

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 SRI Fund for Charities has returned 5.8% since launch (17 May 2010). For more detail on the fund's long-term performance, please refer to page 4.

Aim

The objective of the Fund is to optimise the total return for charity investors, through a global and balanced portfolio, screened against both negative and positive SRI criteria, with the aim of providing a balance between capital growth and income. Whilst there is no specific income target, the aim is to produce a growing level of income.

Performance references

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

Risk profile

Suitable for investors with a medium risk profile.

Fund facts

Fund size (millions):	GBP 34	Pay dates:	Feb, May, Aug and Nov
Annual management charge:	0.75%	Last distribution:	0.7151p per unit
Total expense ratio:	0.84%	ISIN:	GB00B4VV6B25
Base currency:	GBP	Sedol:	B4VV6B2
Dividend yield:	3.6%		

Focus on the latest quarter

Performance over three months

SRI Fund for Charities	5.8%			
Benchmark	7.1%	FTSE All Share	8.4%	FTSE W World (ex UK) 7.5%
FTA Govt All Stocks	5.0%	7 Day £ Libid	0.0%	

Source: Lipper, Datastream & Bloomberg, as at 31 December 2011. Calculation basis: Sterling, total return, 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
Petrobras
Smiths Group PLC
Microsoft Corp.
Illinois Tool Works Inc.
Wm. Morrison Supermarkets PLC

Disposals
Imagination Technologies
Hypermarcas S/A
Associated British Foods PLC
RSA Insurance Group PLC
Samsung Electronics

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

Fund manager report

The price of The SRI Fund for Charities as at 31/12/11 was **£1.012**, and the next dividend due to be paid on 28th February 2012 is estimated to be 0.5438 pence per unit. The Fund rose 5.8% over the quarter on a net of fees, mid-day basis, versus the benchmark return of 7.1% (end of day, gross of fees). Over twelve months, the Fund produced -3.2% (midday, net of fees) versus the benchmark return of 0.0% (end of day, gross of fees).

The lacklustre performance of the global economy and the unconvincing display of European politics provided a fragile base for equities during the fourth quarter, although the sharp falls in prices in August promised considerably better valuations for those brave enough to remain invested. Volatility remained a prominent feature over the period and prompted us again to evaluate our holdings. We were active both in terms of seeking to take profits where appropriate, and in cutting out those positions where the outlook had deteriorated.

As the eurozone crisis continued, we grew increasingly concerned over the holding of **RSA**, the insurance group, which has a large exposure to European government bonds of indeterminate value. We sold the holding, as we anticipate that a disorderly break-up of the EU would be detrimental for the company.

Although we do not emphasise the geographic location of companies, we are conscious that Newton portfolios have maintained a meaningful allocation in favour of Europe, despite the ongoing crisis. However, a high proportion of our European exposure is through Swiss companies; Switzerland has retained its independence over monetary and fiscal policy, despite the pegging of the Swiss franc to the euro. Scandinavia offers non-euro exposure and a selection of attractive companies, although not all have been immune from the European crisis in share-price terms. The remainder of our European holdings are in more defensive sectors (pharmaceuticals, energy and telecommunications) and the companies which we hold all have strong balance sheets and attractive franchises. While Europe remains a significant worry, we have confidence in the companies we hold within the region.

Our *networked world* theme identifies not only new technologies in recently-established companies, but also opportunities in some of the better-known companies which investors may have overlooked. We added **Microsoft**, which represents such an opportunity, to the Fund. Meanwhile, we took some profits in **Imagination Technologies**. Our *networked world* theme has also highlighted a number of opportunities and challenges in mobile telecommunications. **Advanced Info Service**, the Thai

mobile operator, made handsome profits for the portfolio this year, and we were happy to start taking profits. As a replacement, we introduced **TDC**, the Danish telecommunications company, which offers defensive characteristics and a high dividend yield.

The importance of our *energy economy* theme was highlighted by increasing tension in the Middle East, which was supportive for the oil price. Our position in **Statoil** has performed well as a result, although **Petrobras** has performed poorly since we sold it earlier in the year. Improvements in the transparency of the latter and the relative performance differential offered an opportunity to switch, while maintaining our exposure to the sector.

The crisis in Europe reaffirmed our confidence in large-cap, attractively valued companies, which will continue to prosper in the long term. It may be that, in the new economic order, dividends offer the greatest proportion of returns over time. **AB Foods** has a less attractive dividend and we were satisfied with its strong recovery in the latter part of 2011, which prompted us to take some profits. We introduced a position in **Johnson Matthey**, a company which focuses on the manufacture of autocatalysts, heavy duty diesel catalysts and pollution control systems, in addition to other environmentally helpful products.

The Fund is unable to invest in much of the consumer sector, an area which, contrary to our expectations, has continued to perform well. Indeed (versus the benchmark), not holding tobacco or alcohol stocks cost the Fund 0.9% performance in 2011. To that end, we bought a position in Nielsen, a global company which focuses on measurement and information relating to the consumer, and works with many of the world's largest consumer goods producers.

Data emanating from the US has continued to offer positive surprises. We added **ITW**, an industrial conglomerate, which is US-centric, offers cyclical exposure and had suffered a sharp fall in its share price during the general risk aversion which occurred at times during the third quarter. While US equities may benefit from improvements in the economy, we also expect the US dollar to strengthen, particularly in the event of a disorderly collapse of the euro. We purchased a holding in the **US Treasury 1% 2016** issue, primarily on a currency motivation, but we were also equally satisfied with the protective nature of the position, despite the modest yield.

For investors, the implications of deleveraging and its policy responses are highly significant. In particular,

the financial system has had so much liquidity pumped into it that distortions in the normal functioning of asset markets, and in asset prices, have appeared. Hazards associated with even the safest government bonds have called into question previously held notions of 'risk-free' rates, while available returns on some of the highest quality assets have been obliterated. During the closing months of 2011, for example, the inflation-adjusted yield on index-linked gilts became negative across all maturity dates for the first time, and the nominal yield on one-year German government bills also fell below zero.

Risks to investors in the deleveraging world are plentiful; credit, counterparty and liquidity risks all assume an importance far exceeding that with which financial market participants had to contend in the years before the global financial crisis. As a result, the prevailing environment is one in which slavishly following a financial market index could prove costly; instead, it requires the careful sifting of wheat from chaff.

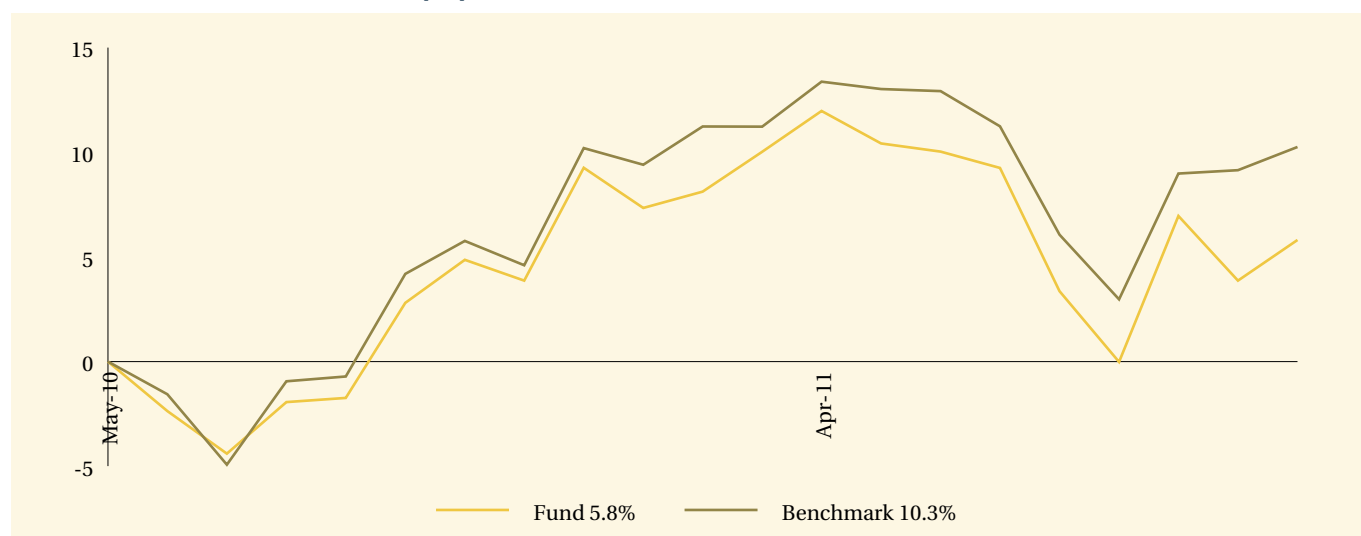
Being active and flexible, and achieving perspective on the investment landscape, does not equate always to getting things 'right', or to capitalising on every swing, to and fro, in short-term financial-market sentiment. However, in tandem with a broad perspective on the investment landscape, such an approach should allow investors to take advantage of evolving opportunities and to withstand volatility in markets – indeed, to accept such volatility as the price to be paid in pursuit of long-term wealth creation.

Fund manager:

Gemma Woodward

Long-term performance

Performance since launch (%)



	2002	2003	2004	2005	2006	2007	2008	2009	2010*	2011
Fund	-	-	-	-	-	-	-	-	9.3	-3.2
Benchmark	-	-	-	-	-	-	-	-	10.2	0.0

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	-	-	-	-	-3.2

*Performance since inception (17 May 2010) to 31 December 2010. All performance sourced from: Lipper, Datastream & Bloomberg, as at 31 December 2011. Calculation basis: Sterling, total return, without initial charges, gross income reinvested, net of management fees. Care should be taken when extrapolating these figures due to short performance history. 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.

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.

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.

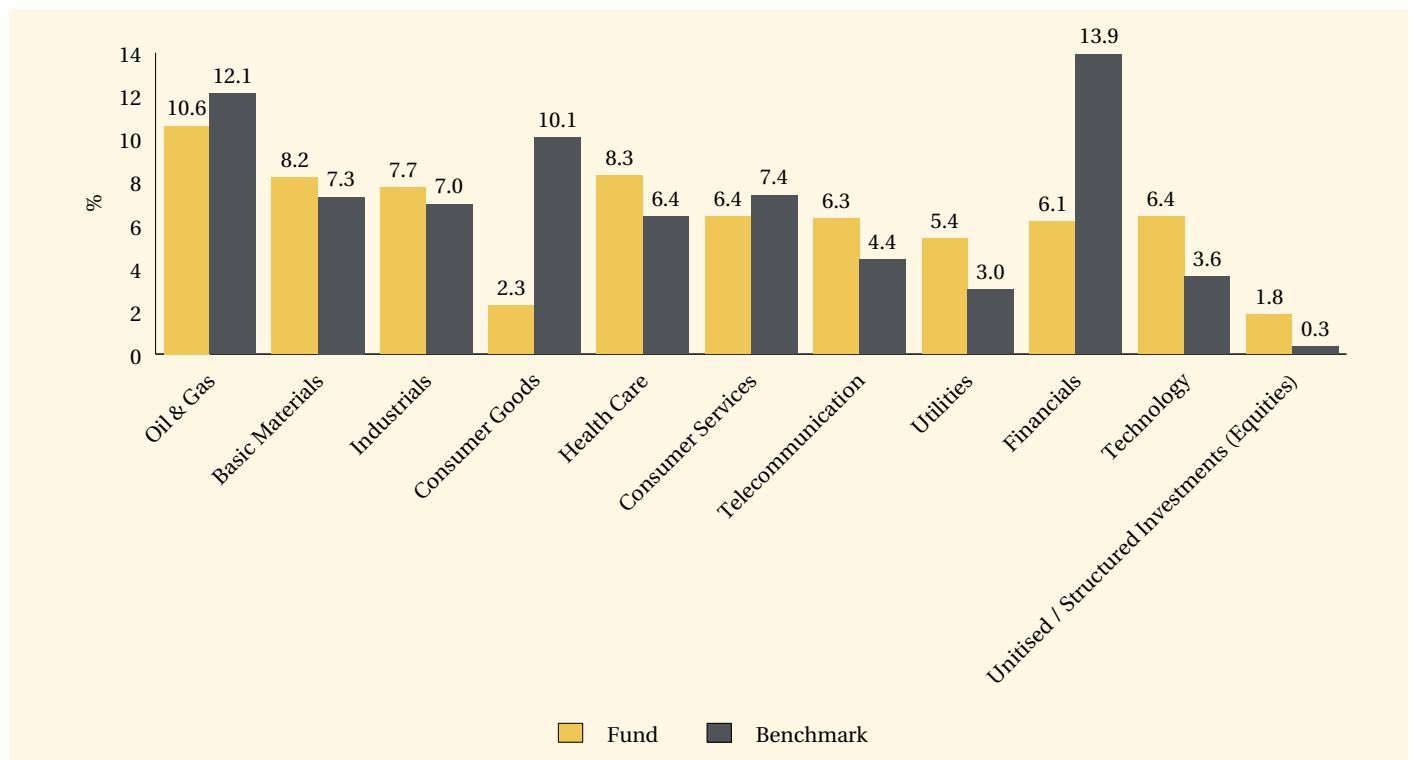
Strategy groups	Representatives from the strategy team, fund managers and research analysts identify global themes and formulate our economic view.
Research team	Global sector analysts, supported by fund managers, identify investment opportunities within the thematic backdrop.
Fund management	Fund managers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

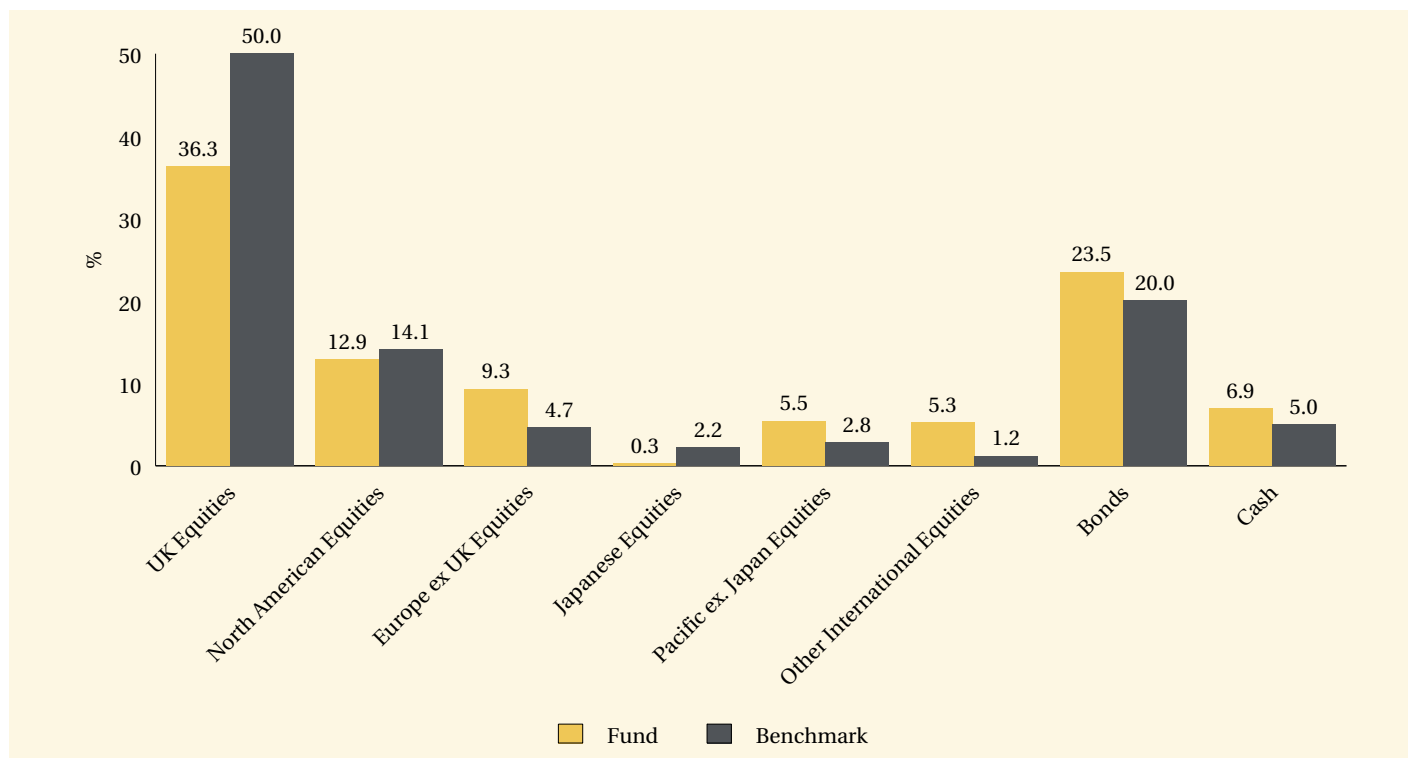
Theme	Factors	Investments
Deleverage	The credit bubble has left many economies carrying levels of debt which materially impair their economic prospects. We anticipate an extended period of relatively low growth and higher economic volatility as debt is reduced to more manageable levels. The scale of 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.	Norwegian government bonds, Siam Commercial, United Overseas Bank, US treasury bonds
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.	BHP Billiton, Anglo American, Swire Pacific, Petrobras
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.	MTN, TSMC, eBay, Apple
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.	Medco Health Solutions, Align Technology, Medtronic, Smith and Nephew

Fund analysis

Equity weightings by industry



Regional and asset class weightings



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

Portfolio valuation

	Holding (%)
Equities	69.55
Oil & Gas	10.60
Oil & Gas Producers	10.27
BG Group PLC	1.39
ENI SpA	0.83
Petroleo Brasileiro SA	0.70
Royal Dutch Shell PLC	4.31
Santos Ltd	1.10
Statoil ASA	0.72
Total SA	1.22
Oil Equipment Services & Distribution	0.32
Wood (John) Group PLC	0.32
Basic Materials	8.22
Chemicals	2.84
Bayer AG	0.64
Johnson Matthey PLC	0.72
Mosaic Co	0.60
Syngenta AG	0.88
Mining	5.38
Anglo American PLC	1.03
Barrick Gold Corp	0.89
BHP Billiton PLC	1.95
Newcrest Mining Ltd	0.86
Rio Tinto PLC	0.66
Industrials	7.73
General Industrials	1.69
Noble Group Ltd	0.36
Smiths Group PLC	0.88
Swire Pacific Ltd	0.46
Electronic & Electrical Equipment	0.75
Emerson Electric Co	0.75
Industrial Engineering	0.63
Illinois Tool Works Inc	0.63
Industrial Transportation	0.70

Portfolio valuation

BBA Aviation PLC	0.70
Support Services	3.96
Accenture PLC	0.92
Bunzl PLC	1.13
Diploma PLC	1.12
Experian PLC	0.79
Consumer Goods	2.26
Beverages	0.53
Britvic PLC	0.53
Food Producers	0.59
Associated British Foods PLC	0.59
Household Goods	0.39
Rossi Residencial SA	0.39
Personal Goods	0.76
Belle Intl Holdings Ltd	0.76
Health Care	8.29
Health Care Equipment & Services	3.22
Align Technology Inc	1.01
Medco Health Solutions Inc	0.62
Medtronic Inc	0.53
Smith & Nephew PLC	0.49
Thermo Fisher Scientific Inc	0.57
Pharmaceuticals & Biotechnology	5.07
AstraZeneca PLC	0.81
GlaxoSmithKline PLC	2.31
Novartis AG	0.67
Roche Hldgs AG	0.57
Sanofi	0.71
Consumer Services	6.40
Food & Drug Retailers	1.76
Morrison (WM) Supermarkets PLC	0.81
Tesco PLC	0.95
General Retailers	2.43
Carphone Warehouse Group PLC	0.52

Portfolio valuation

eBay Inc	0.78
Next PLC	1.14
Media	0.72
Nielsen Holdings N.V.	0.72
Travel & Leisure	1.49
Compass Group PLC	1.03
Go-Ahead Group PLC	0.45
Telecommunication	6.29
Fixed Line Telecommunications	1.86
AT&T Inc	0.44
TDC A/S	0.68
Tele Norte Leste Participacoes	0.32
Telefonica SA	0.42
Mobile Telecommunications	4.43
Advanced Info Service PCL	0.65
China Mobile (Hong Kong) Ltd	0.77
Deutsche Telekom AG	0.80
MTN Group Ltd	0.89
Vodafone Group PLC	1.33
Utilities	5.37
Electricity	2.51
Energy Development Corp	0.74
Fortum Oyj	0.53
SSE PLC	1.24
Gas Water & Multiutilities	2.86
Centrica PLC	0.80
National Grid PLC	1.26
Severn Trent PLC	0.80
Financials	6.15
Banks	3.53
DNB ASA	0.64
HSBC Holdings PLC	0.60
Siam Commercial Bank PCL	0.81
Standard Chartered PLC	0.79
United Overseas Bank Ltd	0.69

Portfolio valuation

Life Insurance	1.54
Principal Financial Group	0.54
Prudential PLC	1.00
Financial Services	1.08
ICAP PLC	0.63
Lazard Limited	0.44
Technology	6.40
Software & Computer Services	1.99
Ariba Inc	0.53
Microsoft Corp	0.65
Sage Group PLC	0.81
Technology Hardware & Equipment	4.41
Apple Inc	0.99
Applied Materials Inc	0.70
EMC Corp	0.61
HTC Corp	0.36
Imagination Technologies Group	0.56
Sumco Corporation	0.31
Taiwan Semiconductor Manufact	0.89
Unitised / Structured Investments (Equities)	1.84
UK Equity Funds	1.84
Impax Funds (Ireland) PLC Environmental Mkts GBP 'A'	1.84
Bonds	23.51
Government Bonds	14.50
UK Bonds	10.32
UK Treasury Gilt 4% 7/3/2022 GBP0.01	2.56
UK Treasury Gilt 4.5% 07/09/2034 GBP0.01	0.93
UK Treasury Stock 4.25% 7/06/2032 GBP0.01	0.89
UK Treasury Stock 5% 7/03/2025 GBP0.01	2.60
UK Treasury Stock 4.25% 7/03/2036 GBP0.01	1.44
UK Treasury Stock 4.75% 7/03/2020 GBP0.01	1.90
Overseas Bonds	4.18
Norway (Kingdom of) 4.25% Bds 19/05/2017 NOK1000	0.73
Norway (Kingdom of) 4.5% Bds 22/05/2019 NOK1000	0.56

Portfolio valuation

USA Treasury Notes 1.25% 31/08/2015 USD100	0.98
USA Treasury Notes 1% 30/9/2016 USD100	1.92
Index Linked	1.16
UK Index Linked	1.16
UK Treasury Stock 2.5% Index-Linked 16/4/2020	1.16
Corporate Bonds	7.85
UK Corporate Bonds	7.85
Anglo American Capital PLC 6.875% Bds 1/5/2018 GBP	0.53
Deutsche Telekom Intl Finance 7.375%-Var MTN 4/12/2019 GBP	0.60
HSBC Bank PLC 5.75% Bds 27/6/17 GBP1000 EMTN	0.45
Motability Operations Group 5.375% Bds 28/06/2022 GBP	0.50
National Australia Bank Ltd 5.125% Bds 09/12/2021 GBP	0.46
National Grid Gas PLC 7% Fxd Rte Bds 2024 GBP1000	0.65
Nationwide Building Society 5.625% Bds 09/09/2019 GBP	0.45
RWE Finance BV 5.625% MTN 6/12/2023 GBP1000	0.51
RWE Finance BV 6.5% EMTN 20/04/2021 GBP1000	0.60
Severn Trent Water Utils PLC 6% Bds 22/01/2018 GBP	0.27
SSE PLC 5% Bds 01/10/2018 GBP	0.49
Telefonica Emisiones SAU 5.289% Bds 09/12/2022 GBP50000	0.40
Tesco PLC 5.5% EMTN 13/12/2019 GBP1000	0.25
Tesco PLC 5% EMTN 24/03/2023 GBP50000	0.17
Tesco Property Finance 3 PLC 5.744% Bds 13/04/2040 GBP	0.48
Transco PLC 6% EMTN 7/6/2017 GBP1000	0.53
Vodafone Group PLC 5.375% Bds 05/12/2017 GBP	0.50
Cash	6.94

This fund is intended for investment by registered UK Charities only. Issued by the Investment Adviser, Newton Investment Management Limited (NIM). The Newton SRI Fund for Charities is a unit trust authorised by the FSA as a non-UCITS retail scheme, and operated by BNY Mellon Fund Managers Limited (BNY MFM). Registered Office for NIM and BNY MFM: BNY Mellon Centre, 160 Queen Victoria Street, London EC4V 4LA. Registered in England No. 1371973 (NIM) and No. 1998251 (BNY MFM). NIM and BNY MFM are authorised and regulated by the Financial Services Authority.

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