

Counterparty risk within the Newton Phoenix Fund

Given the recent market turmoil, we have carried out a full review to confirm that our counterparty risk is as well balanced as we had believed.

With the exception of the hedge fund exposure (detailed towards the end of the note), we set out below the exposure of the Fund to various financial institutions. We would emphasise that we have had no exposure to Bear Stearns, Fannie Mae, Freddie Mac, Lehman or AIG for many years.

Counterparty exposure

	Total	Deposits	Bonds	Equities	Structured products	Property notes
Alliance & Leicester	0.1%				0.1%	
Anglo Irish	0.2%				0.2%	
Bank of Ireland	0.2%				0.2%	
Bank of New York Mellon	0.9%	0.9%				
Barclays	3.9%		0.8%		2.2%	0.9%
Bradford & Bingley	0.2%				0.2%	
Britannia	0.4%				0.4%	
Chelsea	0.4%				0.4%	
Citigroup	0.6%				0.6%	
Commonwealth Bank of Australia	1.1%		1.1%			
Danske Bank	1.0%		1.0%			
Development Bank of Singapore	0.8%			0.8%		
EBS	0.4%				0.4%	
Goldman Sachs	0.6%				0.6%	
HBOS	1.0%		1.0%			
HSBC	0.3%			0.3%		
Leeds & Holbeck	0.1%				0.1%	
Morgan Stanley	0.3%				0.3%	
Northern Rock	0.3%		0.2%		0.1%	
Principality	0.2%				0.2%	
Santander	1.0%		1.0%			
Societe Generale	1.2%				1.2%	
Standard Chartered	1.9%		1.1%	0.8%		
Svenska Handelsbanken	2.3%		2.3%			
Unicredit	0.3%			0.3%		
Wells Fargo	0.4%		0.4%			

Source: Newton, as at 18 September 2008.

The largest exposure to a single financial institution is to Barclays and this represents just under 4% of the Fund. This exposure is spread across a bond, three structured products and a note linked to the UK property index. The only other exposures greater than 1½% are to Svenska Handelsbanken (two bonds, one of which is likely to be repaid next year; the other is likely to be repaid in three years) and to Standard Chartered (an equity - one of the few bank shares we own - and a bond).

We have exposure to funds of hedge funds that are able to open new trades with counterparties without reference to us, but we carry out work regularly on each fund of hedge fund manager's risk controls. We have questioned our key

managers closely about their exposure to Lehman and the exposure they have reported to date has been very limited. It would be surprising if no hedge funds were to close (with significant losses) given sharp movements in markets. As we have said before, we generally expect one of our hedge funds to fail and we guard against significant losses by spreading our hedge fund exposure very widely through funds of hedge funds. Thus any one hedge fund failure will have only a limited impact on the Fund.

Our exposure to Bank of New York Mellon will vary according to our cash balance. We do not undertake stock lending for the Fund.

Our *debt & credit* theme has steered us away from owning banks in the UK and US for many years now. The only UK or US-listed banks we have owned at any time over the last year and a half have been Barclays (sold last year at an average price of £5.30), HSBC and Standard Chartered. The share prices of banks are considerably lower now and at some point there will be selective opportunities to buy bank stocks on attractive valuations. However, for now, we are content to remain on the sidelines.

There is a danger that analysis of counterparty risks may prove inadequate with the benefit of hindsight because the degree to which financial markets are interconnected means that the consequences of failure in one part of the system are difficult to predict with any accuracy. However, we will continue to monitor as closely as possible what is a very changeable situation.

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For the latest performance of the Newton Phoenix Fund, please ask for the latest factsheet.

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