



# Newton Phoenix Fund

Investment Report  
Second Quarter 2007

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## Discrete Past Performance – Percentage Change

	<b>30/06/06 – 30/06/07</b>	<b>30/06/05 – 30/06/06</b>	<b>30/06/04 – 30/06/05</b>	<b>30/06/03 – 30/06/04</b>	<b>30/06/02 – 30/06/03</b>
Phoenix Fund*	<b>8.9%*</b>	<b>11.1%*</b>	<b>13.7%</b>	<b>11.0%</b>	<b>-5.4%<sup>^</sup></b>

**<sup>^</sup> Performance prior to 11 April 2003 reflects the performance of the Phoenix Fund's holdings prior to restyle**

\* On 14 March 2006, a 'B' Share Class was created. The performance we record after 31 March 2006 is that of the 'B' Share Class. Prior to this date, we record the performance of the 'A' Share Class.

**Source of performance information:** Newton as at 30 June 2007, total return, net of fees, without initial charges, income reinvested net of tax. Figures are based on sterling returns.

## Important performance information

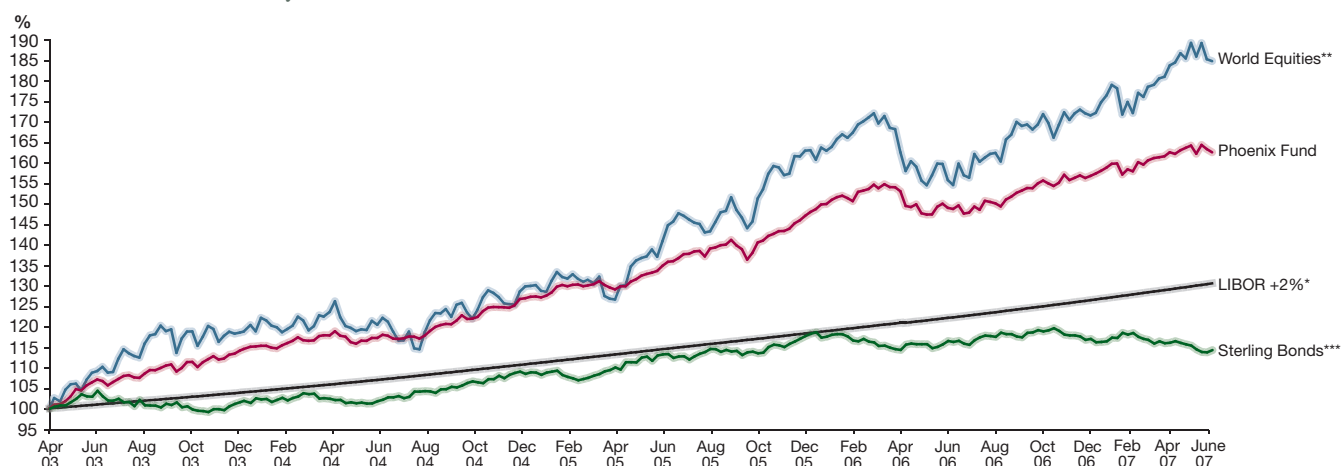
Source: Lipper, bid to bid, net income reinvested. Fund return is after annual charges. The Fund is priced at 12 noon. Past performance is not a guide to future returns. The value of investments and the income from them can fall as well as rise and investors may not get back the original amount invested. The value of overseas securities will be influenced by fluctuations in exchange rates. Part of the Fund may be invested in sub-investment grade bonds that typically have a low credit rating and carry a high degree of default risk, which can affect the capital value of your investment. As the Fund has exposure to hedge funds, gold, private equity and property via publicly quoted transferable securities, there are additional risks associated with these sectors.

# Aim and performance

## Aim

The Phoenix Fund's aim is to achieve long-term growth in excess of cash returns from a balanced portfolio diversified across a range of assets. The benchmark is cash +2% per annum. The Fund is intended to have significantly lower absolute volatility<sup>g</sup> than traditional equity biased funds, but will exhibit volatility relative to its benchmark. The Phoenix Fund was restyled in April 2003 to pursue a 'diversified assets' approach.

Performance data for the period prior to 11 April 2003 should not be seen as indicative of future performance. Performance since restyle is shown below.



## Performance

### Figures since restyle (11 April 2003)

	Latest Quarter	Return	Annualised Volatility <sup>g</sup>	Sharpe ratio <sup>g</sup>	Positive Weeks <sup>g</sup>	Largest loss <sup>g</sup>
Phoenix Fund (after fees):	1.9%	62.7%	4.7%	1.6	69%	-6.1%
Benchmark*:	1.9%	31.6%				
For comparison purposes						
World Equities**	5.0%	85.1%	11.3%	1.0	57%	-12.3%
Sterling Bonds***	-2.3%	14.3%	4.1%	-0.3	55%	-5.3%

\* Benchmark is 1 month LIBOR +2%<sup>g</sup> per annum

\*\* FTSE World (Total Return Index) – price at close

\*\*\* FTA Government All Stocks (Total Return Index) – price at close

<sup>g</sup> See Glossary

Dividend Yield: 1.8% at 30 June 2007 | Last distribution: 0.8955p per unit on 23 March 2007

Fund Size: £115m at 30 June 2007 | Currency: GBP

**Source of performance information:** Newton as at 30 June 2007, total return, net of fees, without initial charges, income reinvested net of tax. Figures are based on sterling returns.

**Source of analysis of volatility of return:** Newton.

## Important performance information

Source: Lipper, bid to bid, net income reinvested. Fund return is after annual charges. The Fund is priced at 12 noon.

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# Comparative performance

## Comparative performance – 11 April 2003 to 30 June 2007 (weekly, total return in £)

	Return	Annualised Volatility	Positive Weeks <sup>6</sup>	Largest Loss
World Equities (FTSE World)	85.1%	11.3%	57%	-10.2%
UK Equities (FTSE All Share)	113.4%	10.4%	61%	-8.2%
UK Gilts (FTA Govt. All Stocks)	14.3%	4.1%	55%	-5.0%
Sub Investment Grade Bonds <sup>6</sup> (Merrill Lynch High Yield 3% constrained)	55.9%	6.9%	58%	-6.4%
Index Linked Gilts <sup>6</sup> (FTA Govt. Index Linked)	24.0%	5.1%	54%	-4.9%
Gold <sup>6</sup>	56.1%	15.9%	54%	-20.3%
Private Equity <sup>6</sup> (Datastream Investment Trusts – Private Equity ex 3i)	138.7%	8.3%	68%	-10.4%
UK Property (Datastream Investment Trusts – Property)	142.2%	8.3%	69%	-8.2%

## Comparative performance – 30 April 2003 to 31 May 2007 (monthly, total return in £)

	Return	Annualised Volatility
Phoenix Fund	64.2%	4.3%
UK Property (Investment Property Databank)	86.7%	3.2%
Funds of Hedge Funds (HFRI Index)	48.2%	7.8%
Average Unit Trust	74.3%	14.2%
UK Inflation	13.8%	–

## Phoenix monthly performance (since April 11 2003)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
<b>2003</b>	–	–	–	1.60%	3.98%	0.86%	1.70%	0.90%	-0.08%	1.86%	0.81%	2.44%	<b>14.92%</b>
<b>2004</b>	-0.06%	1.44%	0.69%	0.39%	-1.03%	1.43%	-0.55%	1.23%	1.85%	0.96%	1.68%	2.04%	<b>10.49%</b>
<b>2005</b>	0.47%	2.02%	0.16%	-0.94%	1.19%	2.91%	2.45%	0.76%	1.77%	-1.51%	2.57%	2.36%	<b>15.10%</b>
<b>2006</b>	3.07%	1.11%	0.96%	0.31%	-3.38%	0.29%	0.40%	0.23%	0.54%	1.69%	0.55%	1.24%	<b>7.11%</b>
<b>2007</b>	0.60%	0.21%	1.25%	1.39%	1.40%	-0.91%							<b>3.98%</b>

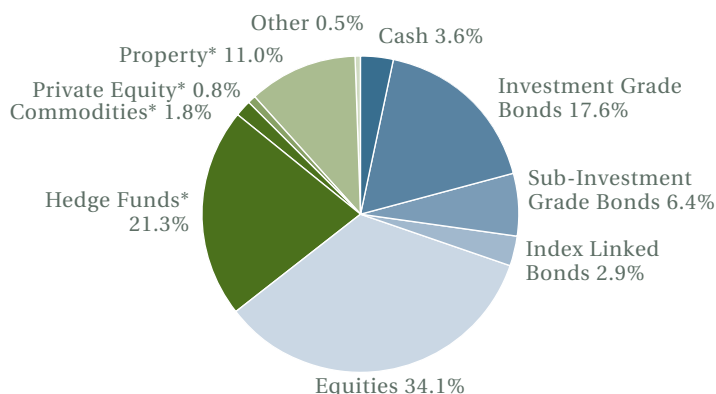
This table shows the performance of the Phoenix Fund Income 'A' Units from 11/04/03 to 31/03/06, then the 'B' Units

Source: Newton as at 30 June 2007. See important performance information on page 2.

<sup>6</sup> See Glossary

# Fund analysis

## Asset class exposure



## Currency exposure

\*Via publicly quoted transferable securities

Sterling	81.2%
US Dollar	4.7%
Euro	7.3%
Yen	0.9%
Swiss Franc	1.5%
Other (Far East etc)	4.5%

## Largest holdings and method of investment

Asset class	Method of investment	Currency hedging <sup>6</sup> of non-sterling instruments	Number of holdings	Largest holdings as at 30 June 2007
Investment Grade Bonds	Direct	Yes	22	Treasury 4.0% 2009 2.4%
				Nationwide BS CD 2.0%
Sub-Investment Grade Bonds	Direct & Fund & Structured Products	Yes	7	Elders (Merrill Lynch) 9% High Yield Shares 1.0%
			1	Symphony Eurostoxx 50 Autocall 3 0.7%
			7	
Index Linked Bonds	Direct	n/a	2	Treasury 2.5% 2011 2.5%
				Tesco 4% 2016 0.4%
Equities	Direct, Funds & Structured Products	No	82	Vodafone 1.1%
			3	BP 1.0%
			5	Symphony FTSE Absolute Return 0.9%
				Barclays 0.7%
Hedge Funds	Funds of Funds	Yes	18	AccenciA Debt Strategies 2.1%
				(100+ hedge funds)
	Hedge Funds		3	Tapestry Investments 1.7%
Commodities	Structured Products	No	4	Harewood BNP Energy Agrinvest 0.6%
				Harewood BNP Energy Base Metals II 0.5%
Private Equity	Investment Trusts	n/a	3	Bear Stearns Private Equity 0.4%
				SVG Capital 0.2%
Property	Investment Trusts & Bond	No	14	UK Commercial Property Trust 1.4%
				Invesco Property Investment Fund 1.3%

Source: Newton as at 30 June 2007. Figures are subject to rounding differences.

<sup>6</sup> See Glossary

# Fund manager's report

The Phoenix Fund enjoyed performance just ahead of its target of cash plus 2% in the second quarter and is ahead for the first half of 2007.

There were changes in political leadership in two European countries in the quarter – the UK and France. While interest rates in the US were unchanged, they were increased by a quarter of a point in the UK and Continental Europe. Bond investors grew nervous as they became more concerned about inflation (with food price inflation a particular concern), this uncertainty led to a number of planned bond issues being cancelled in June. Further volatility in the sub-prime mortgage market saw one US investment bank struggling to save two hedge funds that had invested heavily in this area. In currency markets, sterling remained strong against the Euro, Yen and US dollar (which broke through \$2:£1 on a number of occasions).

Investment grade bonds were weak for the first two months of the quarter, but fell particularly sharply in the first half of June. The Phoenix Fund has been reducing its exposure to longer-dated bonds since the fourth quarter of 2005, often replacing this exposure with certificates of deposit (CDs) - another CD was purchased in April. The attraction of this move was to switch from an asset yielding less than UK base rates to one yielding more. We have also reduced our credit exposure, maintaining a strong focus on AAA rated bonds. This safety first approach has protected the Fund from the worst of the market falls.

Sub investment grade bonds performed well in the first part of the quarter before turning down, notably in late May and throughout June. Given continued equity market strength, our reduction of sub-investment grade bond exposure in favour of structured products has proved worthwhile.

Index linked bonds fell for much of the period, despite the inflation concerns mentioned above. This would suggest that these bonds have not represented good value and justifies our relatively low weighting in this area (just below 3%).

Equity markets were strong throughout April and May, entering a period of much higher volatility in June. For example the UK equity market fell 3%, rose 3%, then fell 3% again - all in one month. While investors grew more confident that a dramatic economic slowdown would be avoided, they also became more worried about the effect of higher interest rates.

Commodities were little changed over the period although, as ever, this masked significant movements within individual commodities. In this quarter, wheat and lead were the strongest commodities, while palladium

was very weak. We have increased our exposure to agriculture and retained exposure to industrial metals, with lower exposure to precious metals and energy.

Private equity enjoyed a very strong April and May before giving back half of these returns in June. This quarter saw a purchase within the sector - the first for quite some time – although this was partly funded by a sale.

Hedge funds enjoyed healthy positive results in each of March, April and May. We have been increasing the Fund's exposure over the last year and it is pleasing that the predicted good performance has come through. The previous report referred to a plan to reduce the number of funds of hedge funds held within the Phoenix Fund - this work is likely to be completed in the next quarter.

Property was weak during the quarter, particularly property equities, but also property investment trusts. The last of our property equities were sold during the quarter, concluding the process that began at the start of the year. At the tail end of last year, property had been one of our biggest investments - we have been actively reducing exposure since then. Although the price of commercial property continues to rise, investors are taking the view that higher interest rates in the UK cap the potential for capital growth, although investors will continue to enjoy growing rental income. In this environment, we have continued to build our exposure to Continental European property (now more than 20% of our property exposure) and reduced or eliminated those property investments with the highest levels of debt. One of the property investment trusts was the subject of a bid in May, giving a boost to performance.

The previous report referred to the dangers of investors' complacency with regard to riskier assets. Investors now have a list of investment worries that include bond markets, inflation, the state of the US sub-prime mortgage market, property related shares and credit spreads (amongst others). All of these could yet be swept aside by confidence returning to investors that seem to have plenty of liquidity available for investment. However, the balance of probabilities would point to some change to investors' approach to riskier assets, suggesting greater volatility lies ahead.

Higher interest rates in the UK increase the benchmark for the Phoenix Fund, but so far, we remain on course to meet our objective of cash plus 2% with considerably less volatility than equities.

Philip Collins  
2 July 2007

<sup>6</sup> See Glossary

# Investment themes

The identification of global themes is a key component of our investment philosophy. Individual economies, industries or companies should not be analysed in isolation. Only by understanding events, trends and competitive pressures worldwide can investment prospects be properly evaluated. We have approximately a dozen investment themes, some of which have changed little over the past few years whilst others are fairly recent additions. A number of these themes are illustrated below with examples of individual holdings.

## Population Dynamics

A nation's demographic profile has profound implications for its ongoing economic development influencing its patterns of growth, consumption and savings, fiscal policy, healthcare regimes and competitive advantage. Industrialised economies have broadly ageing populations while some developing economies have significantly different profiles.

**Beneficiaries:** Allianz, GlaxoSmithKline, Medtronic, Novartis, Smith & Nephew

## Global Realignment

Stronger growth and increasing economic influence of the developing world is challenging the western industrialised nations' domination in terms of wealth, consumption of both natural resources and finished goods and market capitalisation of global stock markets. Some realignment over time is inevitable reflecting the developing world's accumulation of foreign exchange reserves and trade surpluses.

**Beneficiaries:** BHP Billiton, Xstrata, Cemex, Deutsche Post, CVRD

## Debt and Credit

The transition from high to low inflation and interest rates has triggered a super-cycle of credit growth which has boosted economic activity in the West. It has extended the economic cycle and left households, corporations and administrations increasingly highly indebted. This contrasts with a developing world where households and, increasingly, corporations are significantly less indebted. In sectors such as banking (among others), we favour companies with exposure to the developing world.

**Beneficiaries:** EFG Eurobank, KBC, Standard Chartered, Unicredito, DBS

## Energy Supply

Following decades of underinvestment in oil and gas infrastructure, surplus production and refining capacity is limited. Strong current and forecast demand for energy implies a structurally higher real oil price. This has implications for the oil industry, infrastructure, and alternative energy sources as well as significant macro effects.

**Beneficiaries:** BP, ConocoPhillips, Occidental, Total, Subsea 7

<sup>6</sup> See Glossary

# Investment style & other information

The investment style of the Phoenix Fund is based firmly upon diversification. There is diversification between different asset classes as well as within each asset class. The Phoenix Fund focuses on diversification rather than dynamic asset allocation. However, asset allocation decisions form a part of the investment style.

The aim of diversification is to mix different asset classes in such a manner that the Fund is capable of providing a suitable return (the target is 2% above cash) whilst dampening the volatility<sup>6</sup> of that return (the risk<sup>6</sup>). Whilst return is the primary consideration, risk reduction is a strong secondary one. However, investors should be clear that investment in this Fund carries some risk (to generate the additional return) and there will be periods when the Fund price falls, causing underperformance of the benchmark.

Within equities and bonds<sup>6</sup>, (except UK Government Bonds) the majority of holdings represent less than 1% each of the Phoenix Fund.

Within hedge funds<sup>6</sup>, private equity<sup>6</sup> and property, a limited number of investment vehicles are held. However, each investment vehicle provides the Phoenix Fund with exposure to a large number of underlying investments such that the maximum exposure of the Fund to any one property, hedge fund<sup>6</sup> or private equity<sup>6</sup> investment is less than 1% of the Phoenix Fund.

The Other category includes any assets not covered by the asset classes cited above.

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## Dividend information

Ex dividend dates – 31 January & 31 July

Dividend payment dates – 24 March & 24 September

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## Fee information

The annual management fee of the Phoenix Fund 'B' share class is 0.8% (introduced on 14 March 2006).

The Fund deals daily.

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## Fund management team

Lead Manager: Philip Collins

Management Team: Samantha Arnold, Charles Insley, Gemma Woodward, Helen Bayley, John Hair

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\* Source: Newton 30 June 2007

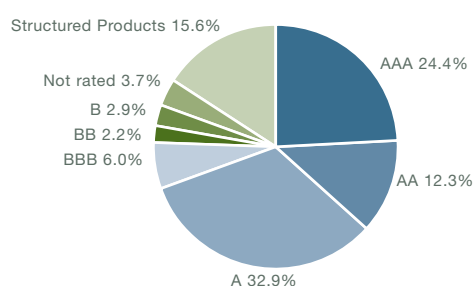
<sup>6</sup> See Glossary

# Appendix 1 Valuation as at 30 June 2007

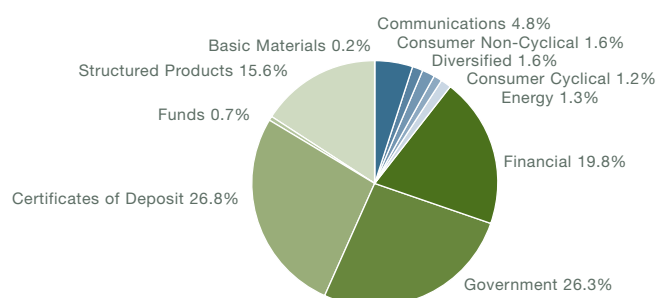
## Bonds

Investment Grade Bonds <sup>6</sup>	Holding	Sub-Investment Grade Bonds <sup>6</sup>	Holding
Alliance & Leicester CD 5.76% 14/02/07-11/02/08	1.8%	BCM Ireland Pref FRN 15/02/2017	0.4%
Barclays Bank 6% 29/06/2049	0.8%	Breeze Finance 6.708% 19/04/2027	0.2%
CRC Breeze Finance 5.29% 8/05/2026	0.4%	Collins Stewart Tullett 8.25% 12/08/2014	0.5%
Dubai Holding Comm Ops 6% 01/02/2017	0.2%	Edcon Holdings FRN 15/06/2015	0.3%
European Investment Bank 3% 16/6/2008	0.8%	Elders 9 % High Yield Shs	1.0%
France Telecom 7.5% (9%) 4/3/2011	0.5%	Elders (Merrill Lynch Intl) Capital Accumulation II	0.5%
Glencore Finance Europe 6.5% 27/02/2019	0.8%	Elders (Merrill Lynch Intl) Capital Accumulation III	0.7%
Irish Life & Permanent CD 5.88% 26/04/07 - 22/04/08	1.8%	Elders (Merrill Lynch Intl) FR Income	0.7%
Koninklijke Kpn 5.75% 18/03/2016	0.2%	Harewood Structured Invest Euro Shield	0.3%
Koninklijke Kpn 6% 29/05/2019	0.2%	Invitel FRN 01/02/2013	0.0%
Metlife Global Funding I 5.25% 09/01/2014	0.6%	Kensington Group 9% 21/12/2015	0.3%
Nationwide Bdg Society CD 5.8% 29/01/07 - 25/01/08	2.0%	New City High Yield Trust	0.2%
Northern Rock CD 5.82% 03/05/07 - 04/02/08	1.8%	New World Resources 7.375% 15/05/2015	0.1%
Pacific Life Funding 5.125% 20/01/2015	0.5%	Stena AB 6.125% 01/02/2017	0.4%
Saphir Finance 6.8509% 04/07/2049	0.9%	Symphony Eurostoxx50 Autocall 3	0.7%
SLM Student Loan Trust 5.15% 17/09/2015	0.9%	Symphony Eurostoxx50 Autocall 4	0.5%
South Africa (Republic of) 10% 28/02/2008	0.3%		<b>6.6%</b>
South Africa (Republic of) 10% 28/02/2009	0.3%		
Standard Chartered Bank 8.103% 29/05/2049	0.3%		
Treasury 4% Stk 7/03/2009	2.4%		
Wells Fargo & Co 4.75% 30/11/2010	0.4%		
	<b>17.4%</b>		
		<b>Index Linked Bonds<sup>6</sup></b>	
		Tesco PLC 4% Index- Linked 8/09/2016	0.4%
		Treasury 2.5% Index-Linked 23/08/2011	2.5%
			<b>2.9%</b>

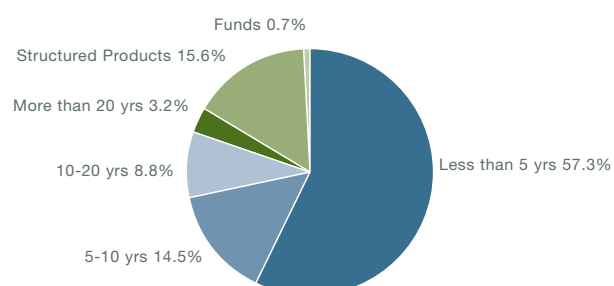
## Bond Credit Ratings<sup>6</sup>



## Bond Sector Weighting



## Maturities



Source: Newton

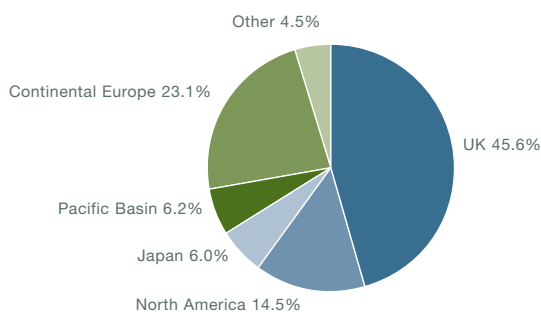
<sup>6</sup> See Glossary

# Appendix 1 (continued) Valuation as at 30 June 2007

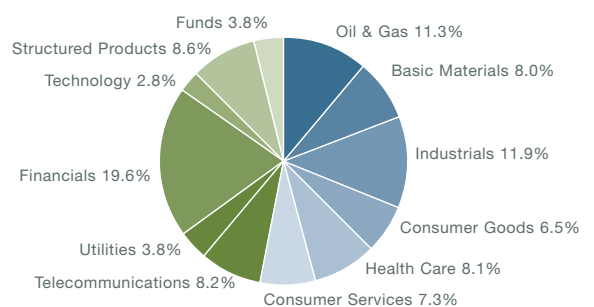
## Equities

	Holding		Holding
ABC Learning Centres	0.2%	HSBC	0.5%
Aberforth Smaller Cos Tst	0.5%	HSBC Infrastructure	0.4%
ABN Amro	0.2%	ICAP	0.5%
Acciona	0.5%	Interpublic Group	0.2%
Accor	0.3%	Irish Life & Permanent	0.3%
Air Liquide	0.3%	Japan Tobacco	0.3%
Allianz	0.3%	KBC	0.4%
Anadarko Petroleum	0.3%	KT&G	0.2%
AstraZeneca	0.2%	Lilly (Eli)	0.3%
BAE Systems	0.3%	Medtronic	0.2%
Bank of Ayudhya	0.3%	Millicom Cellular	0.4%
Barclays	0.7%	MTN	0.3%
BASF	0.3%	National Express	0.3%
Beckman Coulter	0.4%	Neste Oil	0.4%
BG	0.3%	Novartis	0.4%
BHP Billiton	0.7%	Occidental Petroleum	0.3%
BP	1.0%	Old Mutual	0.3%
British American Tobacco	0.4%	Panalpina	0.4%
Cable & Wireless	0.5%	Prudential	0.4%
Canadian Pacific Railway	0.3%	Resolution	0.3%
Canon Inc	0.3%	Reuters	0.5%
Capita Morant Wright Japan	0.6%	Roche	0.3%
Carlsberg	0.2%	Royal Dutch Shell	0.4%
Carrefour	0.2%	Scottish & Southern Energy	0.3%
Cemex	0.4%	Serco	0.3%
Centrica	0.5%	Smith & Nephew	0.4%
Cisco Systems	0.3%	Smiths Group	0.4%
Close Japanese Accel Return Fund II	0.4%	Standard Chartered	0.5%
Cobham	0.4%	Subsea	0.3%
Companhia Vale Do Rio Dolce	0.6%	Symphony FTSE Absolute Return	0.9%
Conocophillips	0.4%	Syngenta	0.3%
DBS	0.4%	Taiwan Semiconductor	0.2%
Deutsche Boerse	0.4%	Teck Cominico	0.2%
Deutsche Post	0.4%	Telstra	0.4%
Diageo	0.5%	Telstra Rights	0.1%
E.ON	0.4%	Tesco	0.4%
EAGA	0.1%	Total	0.4%
Ebay	0.3%	Unicredito	0.5%
EFG Eurobank Ergasias	0.3%	Verisign	0.2%
Elders (Merrill Lynch Intl) Capital Accumulation IV	0.7%	Vodafone	1.1%
Elders (Merrill Lynch Intl) Japan Cap Protected III	0.5%	VT	0.3%
European Equity Tranche	0.2%	Wolseley	0.2%
Gildan Activewear	0.4%	Woong Jin Coway	0.2%
Glaxosmithkline	0.6%	WPP	0.2v
Harewood BNP Paribas Absolute Prog	0.5%	Xstrata	0.3%
			<b>34.1%</b>

### Equity Regional Weightings



### Equity Sector Weightings



Source: Newton

# Appendix 1 (continued) Valuation as at 30 June 2007

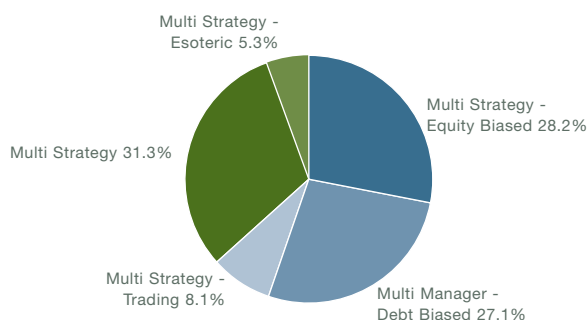
## Fund of Hedge Funds<sup>G</sup>/Hedge Funds Holding

Absolute Return Trust	0.6%
Acencia Debt Strategies	2.1%
Alternative Inv Strategies	1.5%
BH Macro Ltd	0.7%
Close Allblue Fund	1.9%
Close Man Hedge Fund	1.1%
Dexion Absolute Ltd	1.4%
Dexion Alpha Strategies	1.1%
Dexion Equity Alternative	0.6%
Dexion Trading	1.1%
F & C Event Driven	1.0%
FRM Investment Management	0.9%
Goldman Sachs Dynamic Opps	0.9%
Gottex Market Neutral Trust	0.8%
HSBC Global Absolute	0.4%
MW Tops (EUR)	1.2%
MW Tops	0.3%
New Star RBC	0.2%
Saltus European Debt Strategies	1.0%
Signet Global Fixed Interest	0.8%
Tapestry Investment	1.7%
	<b>21.3%</b>

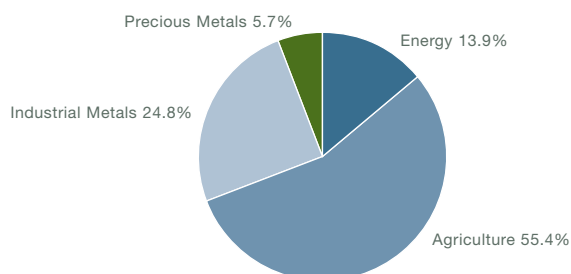
## Commodities

	Holding
Barclays Bank Agric Accel 17/3/11	0.4%
Close Enhanced Commodities Fund	0.3%
Harewood BNP Energy Base Metals II	0.5%
Harewood BNP Energy Agrinvest	0.6%
	<b>1.8%</b>

## Fund of Hedge Fund Strategies



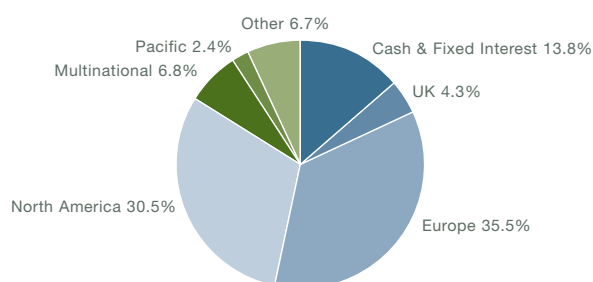
## Commodities



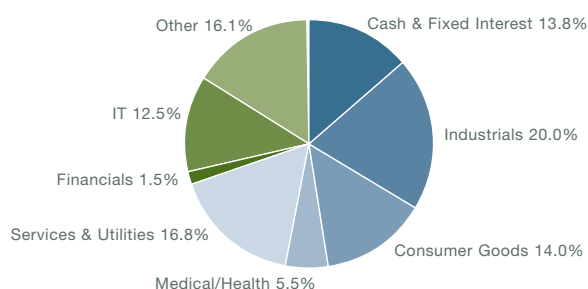
## Private Equity<sup>G</sup>

	Holding
Bear Stearns	0.4%
Pantheon Intl Participations	0.1%
SVG Capital	0.2%
	<b>0.8%</b>

## Private Equity Regional Weightings\*



## Private Equity Sector Weightings\*



Source: Newton

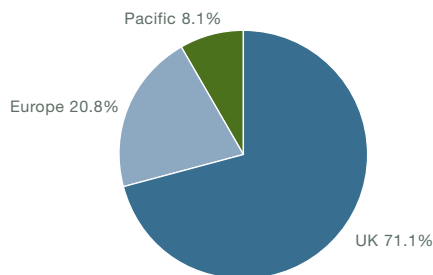
\* Latest available company information – from underlying investments

<sup>G</sup> See Glossary

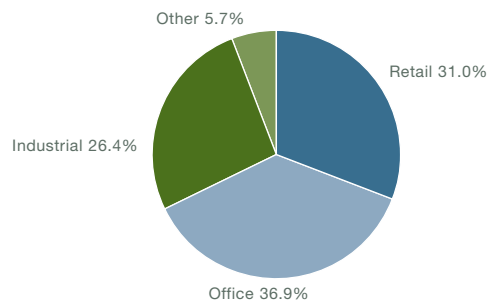
# Appendix 1 (continued) Valuation as at 30 June 2007

Property	Holding
Alpha Pyrenees Trust	0.2%
Atlas Estates	0.3%
Axa Property Trust	0.3%
Barclays Bank FRN 31/03/2008	0.6%
Champion Real Estate	0.3%
Dawnay Day Treveria	0.2%
F & C Commercial Prop Tst	0.8%
ING UK Real Estate	1.3%
Invesco Property Income Trust	1.3%
Invista European Real Estate	1.0%
Invista Foundation Property Trust	1.1%
Mapletree Logistics	0.6%
Matrix European Real Estate	0.4%
Teesland Advantage Property Trust	1.3%
UK Commercial Property Trust	1.4%
	<b>11.0%</b>

Property Regional Weightings\*



Property Sector Weightings\*



Other	Holding
Alternative Asset Opps	0.2%
Ruffer Investment Co	0.3%
	<b>0.5%</b>

Cash	Holding
Sterling Capital	3.7%
	<b>3.7%</b>

Currency Hedging <sup>G</sup>	Holding
Sterling	3.1%
Euro	-1.8%
US Dollars	-0.8%
South African Rand	-0.5%
	<b>0.0%</b>

Source: Newton

\* Latest available company information – from underlying investments

<sup>G</sup> See Glossary

## Appendix 2 Statistical analysis of returns

This page analyses the weekly movements and volatility<sup>6</sup> of the Fund price and compares these with weekly movements and volatility<sup>6</sup> in bond and equity markets. The Fund Manager's comment on these figures is at the bottom of the page.

### Number of weeks since restyle (11 April 2003): 220

	Phoenix Fund (post restyle)	Equities*	Sterling Bonds**
Sharpe ratio <sup>6</sup>	1.62	0.98	-0.33
Sortino ratio <sup>6</sup>	2.67	1.58	-0.51
Information ratio <sup>6</sup>	1.20	0.80	-0.82
Positive weeks <sup>6</sup>	69%	57%	55%
Average gain in positive weeks	0.56%	1.38%	0.46%
Average loss in negative weeks	-0.52%	-1.14%	-0.39%
Average gain/loss in all weeks	0.22%	0.29%	0.06%
Standard deviation <sup>6</sup> of weekly returns	0.65%	1.57%	0.56%
Annualised standard deviation <sup>6</sup>	4.71%	11.34%	4.05%
Downside deviation <sup>6</sup> (weekly)	0.40%	0.97%	0.36%
Annualised downside deviation <sup>6</sup>	2.86%	7.01%	2.61%
Correlation <sup>6</sup> with equities	0.75		
Correlation <sup>6</sup> with bonds	-0.03		
Largest Loss <sup>6</sup> (peak to trough)	-6.10%	-12.30%	-5.30%
<b>When Equities have risen</b>			
Average gain/loss when equities rise	0.59%	1.38%	–
<b>When Equities have fallen</b>			
Average gain/loss when equities fall	-0.25%	-1.14%	–

- Phoenix Fund:** Bid to bid – 12 noon pricing  
**\* Equities:** FTSE World (Total Return Index) – price at close  
**\*\* Sterling Bonds:** FTA Government All Stocks (Total Return Index) – price at close

Source: Newton as at 30 June 2007.

<sup>6</sup> See Glossary

## Risk Factors

Past performance is not a guide to future returns. The value of investments and the income from them can fall as well as rise and investors may not get back the original amount invested. The value of overseas securities will be influenced by fluctuations in exchange rates. Part of the Fund may be invested in sub-investment grade bonds that typically have a low credit rating and carry a high degree of default risk, which can affect the capital value of your investment. As the Fund has exposure to hedge funds, gold, private equity and property via publicly quoted transferable securities, there are additional risks associated with these sectors.

# Appendix 3 Glossary

## **Bonds**

Tradable debt issued by governments, quasi government bodies or companies. Interest is usually fixed until maturity and paid annually. The bond is repaid by the issuer at maturity.

## **Correlation**

A statistical measure of the degree to which the movement of two variables are related. Correlation of 1 means the two variables move in perfect unison, -1 means they move in completely opposite directions while 0 means the movement of one variable is independent of the other.

## **Credit rating**

A rating awarded by credit rating agencies (Standard & Poor's and Moody's are the best known) after analysing the creditworthiness of the issuer. AAA is the safest rating.

## **Currency hedging**

Much of the hedge fund exposure (for example) is denominated in US dollars, giving a currency risk. To offset this, the Fund sells US dollars against sterling for settlement in the future. The Fund therefore has a debt in dollars and a sterling asset. Movement in currency hedging will offset currency moves affecting the hedge fund investment.

## **Downside deviation**

Standard deviation measures the variability of all returns, downside deviation measures the variability of all returns below zero. The Phoenix Fund aims for low downside deviation.

## **Exchange Traded Fund (ETF)**

A passively managed investment fund that is traded on a stock exchange. In this case, the gold ETF invests in gold bullion. The Fund price moves in line with the gold bullion price.

## **Gold**

The Newton Phoenix Fund invests in a listed exchange traded fund (ETF) that invests in gold bullion.

## **Hedge funds**

Unregulated funds with wide investment powers (for example the ability to hold short positions, ie. sell an asset the fund does not own). There is an enormous number of possible investment strategies. The Newton Phoenix Fund gains its exposure to these funds by investing in listed investment trusts and companies that invest in hedge funds.

## **Index linked bonds**

Bonds with interest and capital repayment linked to inflation.

## **Information ratio**

The relative performance of the Fund divided by the volatility of that relative performance. A figure above 0 shows that the Fund has outperformed the benchmark. For the purposes of this Fund, all information ratios use LIBOR +2% as the benchmark.

## **Investment grade bonds**

Bonds with a credit rating of Baa3/BBB- or better. AAA is the safest rating.

## **Investment trusts**

A company that invests in (for the purposes of this Fund) property or private equity, the investment trust is quoted and traded on a stock exchange.

## **Largest loss**

The largest loss (from peak to trough) suffered by the investment or index. Also known as maximum drawdown. The Phoenix Fund aims for a low figure.

## **LIBOR +2%**

The benchmark for this Fund. LIBOR (London Inter Bank Offer Rate) is a cash interest rate available to large high quality institutions.

## **Positive weeks**

The percentage of weeks (since the restyle of this fund) that saw a rise in the fund or index.

## **Private equity**

Unquoted companies – venture capital (early stage) and management buy outs/ins (established companies).

## **Risk**

In the context of this Fund the variability of returns or volatility. This is measured by standard deviation.

## **Running yield**

A measure of the income stream of a bond – the annual interest rate divided by the price of the bond.

## **Sharpe ratio**

A measure of risk adjusted return. The excess return (in this case, the return above cash) divided by the standard deviation. A higher number suggests a more efficient mix of returns and volatility.

## **Sortino ratio**

A measure of risk adjusted return similar to the Sharpe ratio, the difference being the Sortino ratio uses downside deviation, not standard deviation of all returns. A higher number suggests a more efficient mix of returns and downside volatility.

## Appendix 3 (continued) Glossary

### **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). The Phoenix Fund aims for a low standard deviation of returns.

### **Structured Product**

An investment trust (for the purposes of this Fund) that provides a return based on derivatives (or options) linked to stock market indices. Typically, the investment trust holds a sum in cash to provide capital protection if markets fall with the remainder invested in options to benefit from any market rise. However, many different structures are possible.

### **Sub-investment grade bonds**

Bonds with a credit rating below Baa3 (Standard & Poor's) or BBB- (Moody's). The risk of default or lack of interest payment is higher than for Investment Grade Bonds.

### **US Traded Life Interests Fund**

A fund that obtains its return from the realisation of US life insurance policies purchased in the secondary market.

### **Volatility**

A risk measure, calculated using standard deviation. The higher the figure the more variable the return of an investment.

## **Important performance information**

Past performance is not necessarily a guide to future returns. The value of investments and the income from them can fall as well as rise and investors may not get back the original amount invested. The value of overseas securities will be influenced by fluctuations in exchange rates. Part of the Fund may be invested in sub-investment grade bonds that typically have a low credit rating and carry a high degree of default risk, which can affect the capital value of your investment. As the Fund has exposure to hedge funds, gold, private equity and property via publicly quoted transferable securities, there are additional risks associated with these sectors.

Issued by Newton Investment Management Limited. The Newton Phoenix Fund is an authorised unit trust operated by Mellon Fund Managers Limited. Newton Investment Management Limited and Mellon Fund Managers Limited are authorised and regulated by the Financial Services Authority and are members of the IMA.

*A Mellon Financial Company<sup>SM</sup>*

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