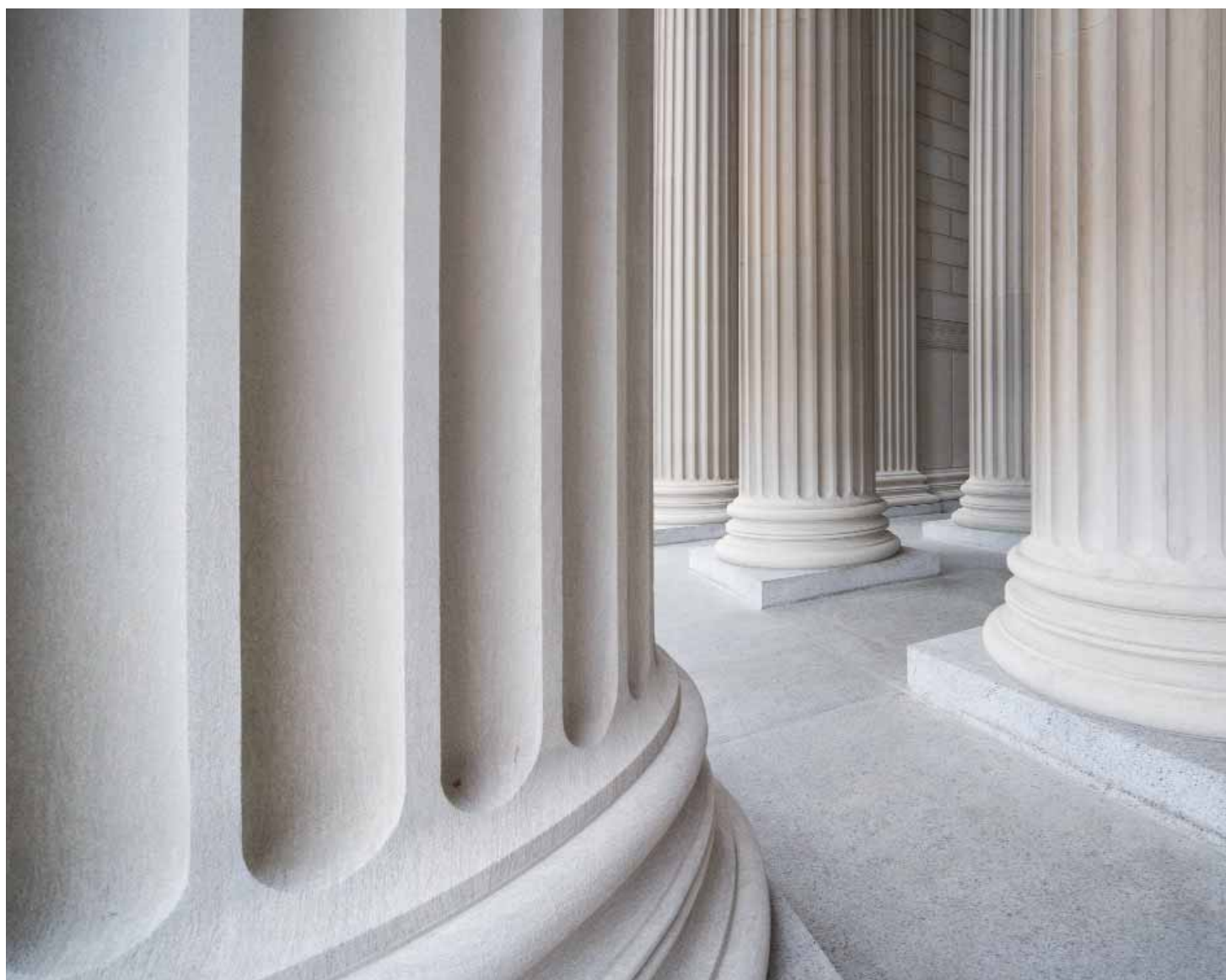


Newton Real Return Fund

Investment Report - Second Quarter 2009

► A BNY MELLON ASSET MANAGEMENT COMPANYSM

NEWTON
The Power of Ideas



Contents

Fund information	1
Focus on the latest quarter	2
Long-term performance	4
Long-term performance - risk and reward	5
Newton's investment process	6
Glossary	7

Fund information

Long-term track record

The Newton Real Return Fund has returned 64.1% since relaunch (31 March 2004), which is equivalent to 9.9% per annum. This is an outperformance of 0.9% per annum compared to the fund's benchmark. For more detail on the fund's long-term performance, please refer to page 4.

Prior to 30 June 2009, the Fund was called the Newton Absolute Intrepid Fund.

Aim

To achieve capital growth in sterling terms over the long term from an unconstrained, actively managed multi asset strategy. The manager of the Fund has maximum flexibility at the asset allocation level and emphasis is placed on long term investing. The Fund is intended to have lower absolute volatility than traditional equity biased funds, but will exhibit volatility relative to its benchmark.

Expected characteristics

Return: Significantly above cash over the long term; variable in the short term.

Volatility of return: Medium. Investors can expect to experience significant fluctuations in the value of their holding, driven to a large extent by rises and falls in equity markets.

Income: Medium, and the dividend is likely to grow over the long term.

Performance references

1 month £ Libor +4% p.a. (benchmark), ARC £ Steady Growth, IMA Absolute Return.

Risk profile

Suitable for investors with a medium risk profile.

Fund facts

Fund size (millions):	GBP 586	Ex dividend dates:	01 Jan, 01 Jul
Annual management charge:	1.0%	Pay dates:	28 Feb, 30 Sep
Total expense ratio:	1.13	Last distribution:	3.4938p per unit
Base currency:	GBP	ISIN	GB0006780323
Dividend yield:	3.2%	Sedol	0678032

Focus on the latest quarter

Performance over three months

Newton Real Return	-0.6%				
1 month £ Libor +4% p.a.	1.2%	ARC £ Steady Growth:	5.8%	IMA Absolute Return	3.0%

Source: Lipper, WM & ARC, as at 30 June 2009. Calculation basis: Sterling, total return, bid to bid, without initial charges, net income reinvested, net of management fees.

Major contributors to relative performance

Significant transactions

Acquisitions
RWC Partners-Global Convertibles Fd 'B'
Norway (Kingdom of) 6.5% 15/05/2013
Bayer AG
FTSE 100 Index Jul09-3600 (Put Option)
Smith & Nephew PLC

Disposals
StatoilHydro ASA
Serco Group PLC
FTSE 100 Index Jul09-3300 (Put Option)
Abu Dhabi Ntl Energy Co 4.375% 28/10/13
Anglo American Capital 5.875% 17/04/15

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

Fund manager report

Performance Factors

The first two months of the quarter saw a broad market sell off exceeding the lows seen last November. Internal market dynamics however saw a rotation from defensive to cyclical stocks, notably general retail leading the market during February. The result was that whilst the fund's defensive equity positioning cushioned the impact of the market fall, many of the fund core holdings did not participate in the March equity market rally. Despite this the fund held up well with positive contributions from FTSE 100 put options, overseas equities and gold stocks in particular.

Good stock selection in overseas equities exerted a significant influence upon performance this quarter. The US was a particular highlight, specifically the position in mobile operator Sprint Nextel, which nearly doubled over the review

period, and thus reversed much of last quarter's disappointing performance. The principal catalyst for this share price appreciation was the publication of an encouraging set of financial results. This release revealed that management had made great strides in terms of establishing a more robust cost discipline across the company, a necessary first step along the road towards raising margins. Going forward, the deployment of an enhanced handset range, together with a more aggressive marketing policy, should drive improved subscriber data later in the year. The other significant contributor in the US was pharmaceutical manufacturer Wyeth, up meaningfully as its strong franchises in vaccines and consumer health attracted a takeover offer from its larger peer, Pfizer. Elsewhere, a number of emerging market holdings peppered the list of positive contributors, namely Tele Norte Leste and Petrobras, as this asset class benefited from the

moderation in general risk aversion seen towards the end of the period.

During a quarter in which we saw monetary authorities resort to quantitative easing on both sides of the Atlantic, it is perhaps unsurprising that the gold price climbed higher. Naturally this exerted a beneficial influence upon the portfolio's significant exposure, which we have progressively accumulated, both via physical gold (ETFs Physical Gold), and gold mining equities (Newmont Mining, Minas Buenaventura and Gold Fields). A positive contribution was generated in fixed interest. Here the Fund garnered positive returns from its holding in Norwegian government bonds as the krone strengthened versus sterling. Finally FTSE 100 put options in place from the beginning of January saw a considerable rise in value as the market fell during the first two months of the quarter.

Review of Activity

Many investors have seized upon an apparent stabilisation in certain data series as grounds for reassessing the case for risk assets, pouring money back into more cyclical sectors such as retailers and miners. However we feel that many defensive areas such as pharmaceutical and defence companies are now looking seriously oversold. Given that we believe economic conditions will continue to be highly challenging we would prefer to buy oversold companies with robust cash flows and strong balance sheets, which can potentially emerge from the downturn in a stronger position. In this vein the fund has taken the opportunity of market weakness to increase core holdings in pharmaceutical stocks; GlaxoSmithKline, Lilly, Novartis and Roche. Within the defence space the fund has introduced a new holding in VT Group and built on an existing position in BAE Systems.

Trading activity in the Telecoms sector entailed exiting the position in Elisa, the Finnish telecoms group, and switching the proceeds into KPN of the Netherlands. Our conviction here was that KPN's management will pursue a more shareholder-friendly approach going forward, having committed to distribute all free cash flow via a combination of dividends and share buybacks. Furthermore KPN's strategy of deploying a relatively high proportion of temporary staff across its operations provides a useful earnings cushion should revenues come under pressure.

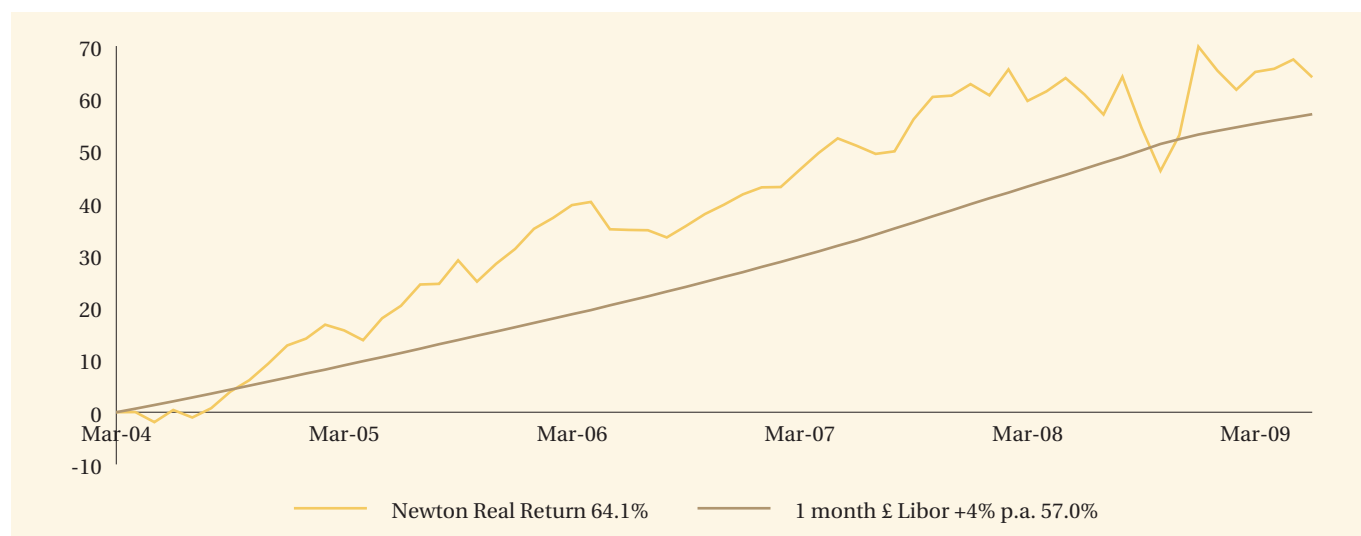
Corporate bonds remain a favoured asset class, with spreads relative to government securities still close to all-time highs despite some signs of improvement in the credit market. Furthermore we believe that with absolute yields at present levels, this offers investors the potential for equity like returns, and thus provide a compelling risk/reward proposition versus other asset classes. In line with this strategy we capitalised on a pickup in the volume of primary issuance to introduce holdings in a range of blue-chip credits including Pearson, Reed Elsevier, Ahold, Pfizer and Nokia. A new holding in Norwegian government bonds was introduced to the portfolio. While this investment offered a higher yield relative to similar duration issues in both the UK and Germany, currency was an equally important motivation and reflects our preference for the Norwegian Krone due to Norway's robust national finances and commodity backing.

Fund manager:

Iain Stewart

Long-term performance

Performance since launch



	2000	2001	2002	2003	2004	2005	2006	2007	2008	YTD 2009
Newton Real Return	-	-	-	-	-	16.4	8.0	14.9	4.4	-3.4
1 month £ Libor +4% p.a.	-	-	-	-	-	9.0	9.1	10.3	9.5	2.5

Discrete past performance - percentage change

From	30/06/04	30/06/05	30/06/06	30/06/07	30/06/08
To	30/06/05	30/06/06	30/06/07	30/06/08	30/06/09
Newton Real Return	19.9%	12.1%	11.9%	6.5%	2.1%

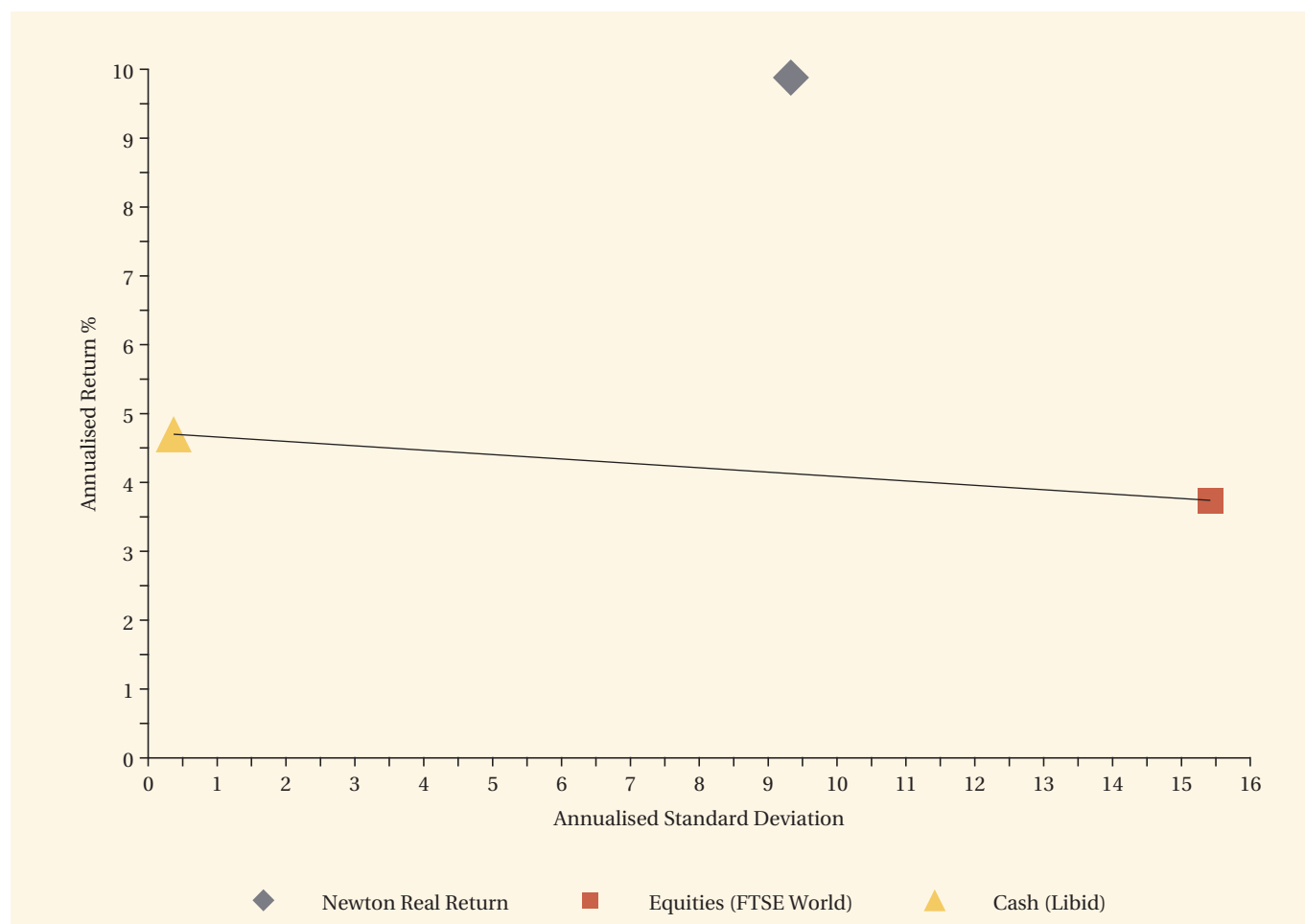
Source: Lipper, WM & Datastream, as at 30 June 2009. Calculation basis: Sterling, total return, bid to bid, without initial charges, net income reinvested, net of management fees.

Risk factors

This is a financial promotion and is not intended as investment advice. 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. If the portfolio invests in sub-investment grade bonds that typically have a low credit rating these carry a high degree of default risk, which can affect the capital value of your investment. If the portfolio has exposure to hedge funds, gold, private equity and property via publicly quoted transferable securities, there are additional risks associated with these sectors.

Long-term performance - risk and reward

Fund return and volatility since launch



This chart shows both return and volatility. The Newton Real Return Fund has given a higher return than cash and equities with significantly lower volatility than equities. The relaunch date of the fund was 31 March 2004.

Risk and return since launch

	Annualised Return	Volatility	Sharpe ratio
Newton Real Return	9.9%	9.3%	0.6%
1 month £ Libor +4% p.a.	9.0%		

Source: Lipper, WM & Datastream, as at 30 June 2009. Calculation basis: Sterling, total return, bid to bid, without initial charges, net income reinvested, net of management fees.

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
All Change	The previously benign period of stable growth, low inflation, and easy credit, which allowed private sector debt and financial leverage to grow to unsustainable levels (as described in a previous theme, "Becalmed") has come to an end. When assessing investments we assume that access to credit will remain difficult, which favours companies with limited financing requirements and argues against exposure to highly-indebted customers.	BP, GlaxoSmithKline, Roche, Vodafone
Networked World	Communications networks have already transformed our lives, but there is great scope for further expansion. Rapid increases in bandwidth continue to increase networks' potential, and this is driving productivity gains. The explosive growth of mobile internet, combined with innovations in sensor technology, will generate profound changes in many industries.	LG Telecom, Millicom, Vodafone, Sprint Nextel, Telstra
Energy Supply	Following decades of underinvestment in oil and gas infrastructure, surplus production and refining capacity is limited. Despite weak demand currently, forecast supply of 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.	Acciona, BP, Arch Coal, StatoilHydro, Petroleo Brasileiro
More Government	The financial crisis and the recession that has followed in its wake have sharply reversed the trend of reducing the role of the state in the economy, especially in the developed world. With bigger government comes more regulation, higher taxes and the prospect, ultimately, of slower growth and higher economic volatility; local interests will take priority over global. The magnitude of the recent stimulatory policies may have sown the seeds for future inflationary pressures and the unpredictable nature of state intervention increases the risks in all asset classes.	ETFS Physical Gold, Index-Linked Bonds Avoid state-controlled banks e.g. RBS, LloydsTSB

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.

WM private client indicators

The WM Company surveys investment companies to ascertain the exposure of their principal private client model portfolios by asset class (eg, equities, bonds, hedge funds, etc) and geography. From this they derive an average portfolio in each of the categories “growth”, “balanced” and “income”. The appropriate market index return (eg, FTSE All Share, FTSE Government All Stocks) is then applied to the various elements of the three representative portfolios to generate a benchmark return for each category.

Issued by Newton Investment Management Limited (NIM). The Newton Real Return Fund is an authorised unit trust operated by BNY Mellon Fund Managers Limited (BNY MFM). Registered office for NIM and BNY MFM: The Bank of New York 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.

Newton Real Return Fund

Newton Investment Management Limited (NIM)

Telephone: 020 7163 9000

Fax: 020 7163 5063

email: privateclients@newton.co.uk

NIM London

The Bank of New York Mellon Centre
160 Queen Victoria Street
London EC4V 4LA

NIM Edinburgh

2 Festival Square
Edinburgh EH3 9SU

NIM Leeds

No.1 Whitehall Riverside
Leeds LS1 4BN

