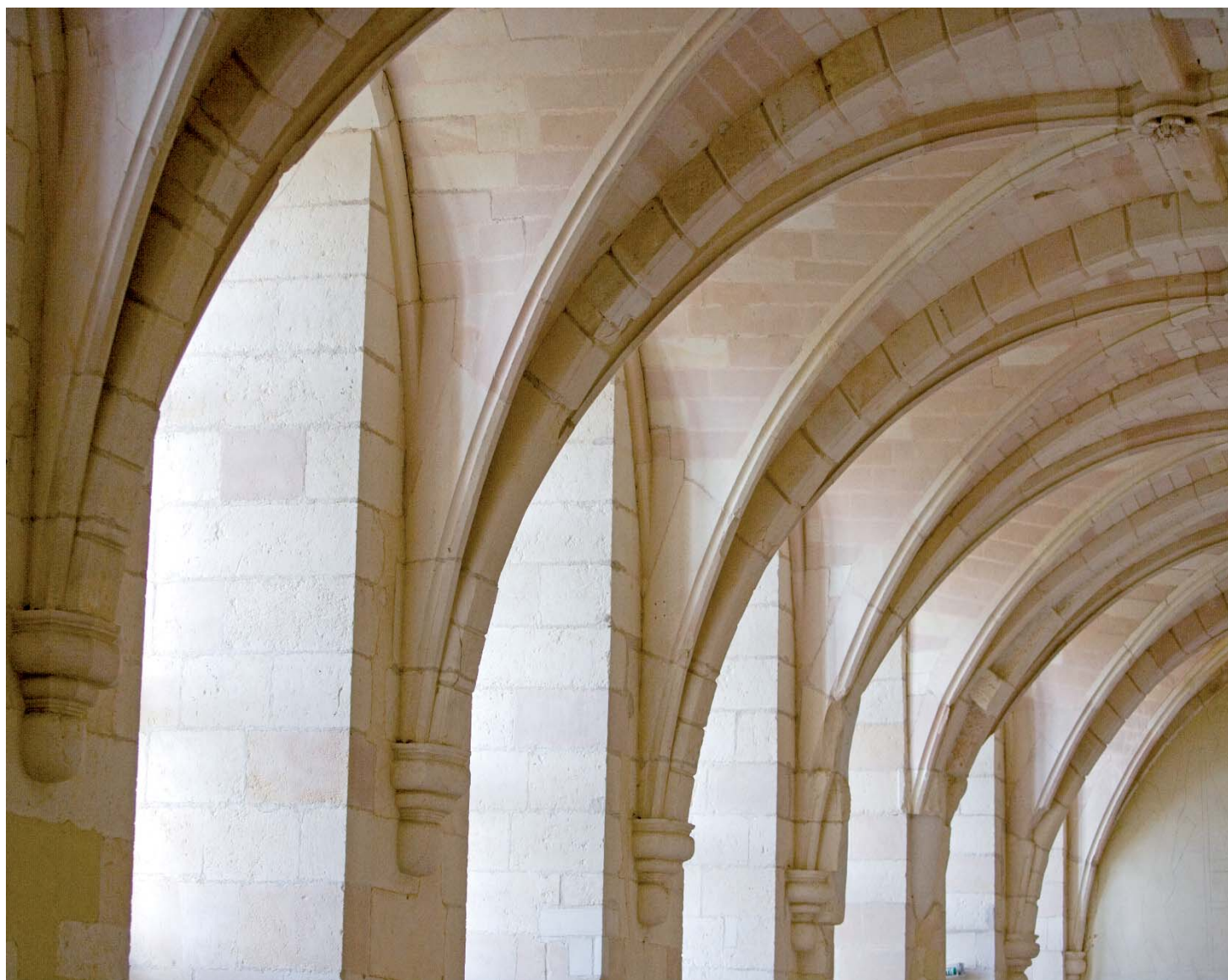


Newton Falcon Fund

Investment Report - Third Quarter 2010

► 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 127.6% since launch (13 November 1998), which is equivalent to 7.2% per annum. This is an outperformance of 3.1% 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 108	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:	1.59%	Last distribution:	0.2563p per unit (inc units only)
Base currency:	GBP	ISIN:	GB0032585050
Dividend yield:	1.3%	Sedol:	3258505

Focus on the latest quarter

Performance over three months

Newton Falcon Fund	8.1%				
Benchmark*	10.9%	ARC £ Equity Risk (est)	8.4%	IMA Global Growth	7.4%
FTSE All Share	13.6%	FTSE World ex UK	8.2%		

Source: Lipper, ARC & Datastream, as at 30 September 2010. Calculation basis: Sterling, total return, bid to bid, without initial charges, net income reinvested, net of management fees.

Major contributors to relative performance

Positive	%
HTC Corporation	0.82
Potash Corp of Saskatchewan	0.59
Transocean Ltd	0.34
Genzyme Corp	0.31
Bangkok Bank PCL	0.28

Negative	%
INPEX Holdings Inc	-0.46
Flir Systems Inc	-0.36
Nomura Holdings Inc	-0.30
ITT Educational Services Inc	-0.30
Intel Corp	-0.24

Significant transactions

Acquisitions
Associated British Foods PLC
Bunzl PLC
Carnival PLC
Petrobras Petroleo Brasileiro (Pfd)

Disposals
Bilfinger Berger AG
Millicom International Cellular S.A.
Devon Energy Corp.
Go-Ahead Group PLC

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

Fund manager report

This was a volatile quarter for equity markets as investor sentiment oscillated between exuberance, prompted mainly by developments in monetary policy (staying loose) and bank regulation (getting tougher, but with a long grace period), and concerns about the prospects for continued economic recovery amidst some discouraging data, notably relating to US housing and unemployment. The end result was nonetheless a buoyant global equity market. The dominant influence towards the end of the quarter was the anticipation of renewed monetary stimulus in the US, which had a notable effect on commodity-related investments: basic materials and oil and gas were the best-performing sectors in the Fund's benchmark. The FTSE All Share index returned 13.6% during the quarter, whilst overseas equity returns were only dampened by a rebound of sterling, principally versus the dollar. Asia and Emerging Markets once again provided very good returns.

Your Fund's performance lagged the substantial rise in the benchmark, as it has tended to in the most buoyant periods during the last 18 months. Helped by the BHP Billiton bid for Potash Corp, a recovery in the Transocean share price, and good performance from gold miner Newcrest, oil service company Wood Group, and the Thai integrated oil company PTT, the Fund kept pace with the strong performance in the resource sectors in the benchmark. These successes were somewhat offset by Inpex, a Japanese oil exploration company, which decided to raise over six billion dollars of equity to finance development of its largest growth project at a price that was highly dilutive to the existing asset base. While this was frustrating, we continue to believe the company is fundamentally undervalued. The industrials sector was a source of relative weakness for the Fund, driven by investments in aerospace and defence companies, as was the telecommunications sector, driven by

company-specific disappointments in the UK and Brazil. The technology sector was a source of strength, on the other hand, which was attributable entirely to HTC, the Taiwanese designer of smartphones. The company's sales are growing very fast as the adoption of Android-based phones gathers pace and recognition of the HTC brand improves. This offset lacklustre performance from large cap technology shares such as Intel and Cisco, amidst worsening sentiment over corporate spending.

Moving on to activity within the portfolio, we added three new investments quoted in the UK, but with businesses worldwide. Associated British Foods (ABF) has a range of businesses including sugar, grocery products, and ingredients, but the focus of future capital expenditure will be its Primark retail business. We believe that Primark's offering is well-suited to a period of austerity, and there remains scope for further market share gains in the UK and especially overseas. We also reintroduced Bunzl to the Fund. The group continues to provide a valuable outsourcing service in procurement and inventory management to industries including grocery, retail and healthcare. The attractions of a company that helps others to cut costs remain as strong as ever, and Bunzl's record of growing through acquisition whilst maintaining good returns on capital is excellent. Carnival, the cruise operator, was purchased after the share price fell during the August market malaise. Cruising is a highly consolidated industry globally, and Carnival's principal competitor, Royal Caribbean, is struggling under very high debts. Carnival, on the other hand, is in a position to build new ships, and we believe there is potential for cruising to increase its share of the holiday market in Europe and Asia.

We made quite a number of changes to the Fund's holdings in the resources sectors, the principal one being to increase the small position in Petrobras, which had struggled for much of the past 12 months with the overhang of a capital raising to fund the purchase of additional oil reserves from the Brazilian government. Whilst some details of the capital raising were far from ideal, we think that the company will now be able to move forward, and we like the valuation in light of Petrobras' long-term development prospects. We took money out of some other commodity-related investments, including a reduction of Potash Corp following the bid from BHP Billiton, a reduction of BP following a sharp recovery in the share price, the sale of our remaining position in Denbury Resources, and the sale of Devon Energy. We also replaced the exposure to US natural gas that Devon had given us by purchasing Petrohawk Energy, which has come to the end of a period of equity issues and has better

quality assets in our opinion. The US gas price has been very weak on account of current oversupply, opening up an unusually large gap with the oil price. We believe that over time this situation will resolve itself, given the economics of production at current prices and the incentives for fuel substitution that cheap (and relatively clean) gas creates, notably in electricity generation.

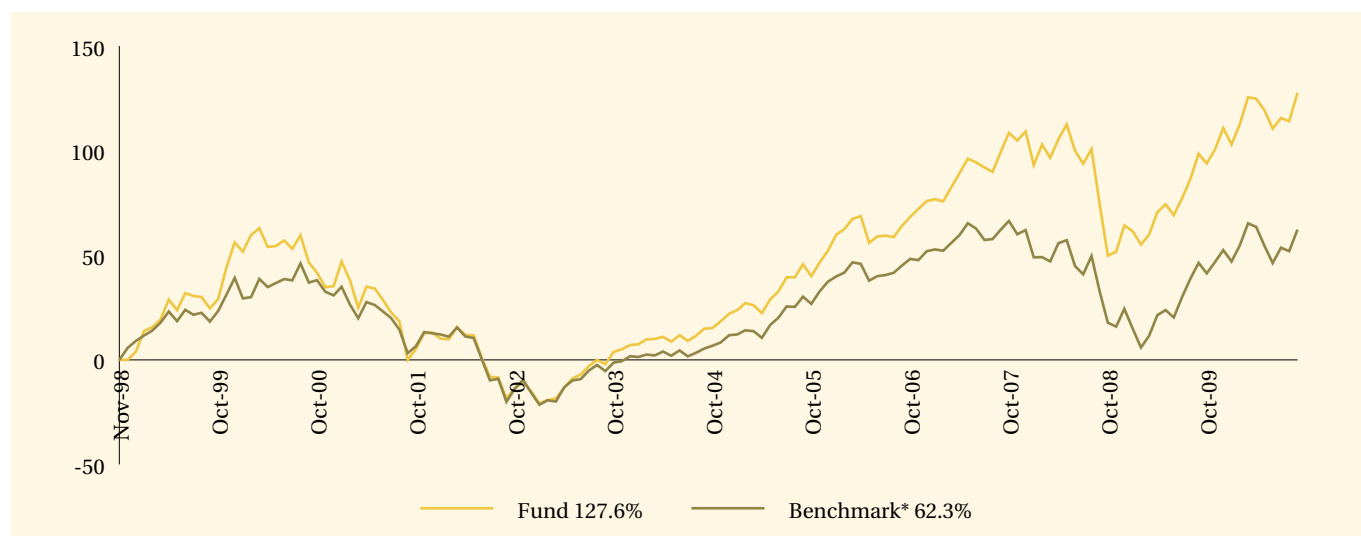
The support to economic activity from the rebuilding of inventories has probably run its course for the time being. Western economies remain highly indebted, and will soon have to contend with government spending cuts. Developing world growth remains robust, although valuations in many cases already reflect a positive outlook as investors' capital has chased growth opportunities, encouraged by minimal interest on savings back home. Interest rates will likely remain very low in the West, which provides encouragement to some, but we must bear in mind that such monetary conditions have a highly distortionary impact on a range of asset prices and economic activity. Our approach is to combine stocks whose fortunes should be relatively independent of the economic cycle with a balance of investments that are appropriate for a wide range of different potential outcomes.

Fund manager:

Robert Hay

Long-term performance

Performance since launch (%)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	YTD 2010
Fund	-16.4	-24.8	26.0	14.0	24.6	15.7	19.0	-21.5	28.3	8.0
Benchmark*	-13.9	-25.2	20.8	9.9	22.8	10.6	6.6	-23.2	22.6	6.4

Discrete past performance (%)

From	30/09/05	30/09/06	30/09/07	30/09/08	30/09/09
To	30/09/06	30/09/07	30/09/08	30/09/09	30/09/10
Fund	12.6	21.6	-12.6	13.9	14.7

Source: Lipper & Datastream, as at 30 September 2010. Calculation basis: Sterling, total return, bid to bid, without initial charges, net income reinvested, net of management fees.

*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 (£).

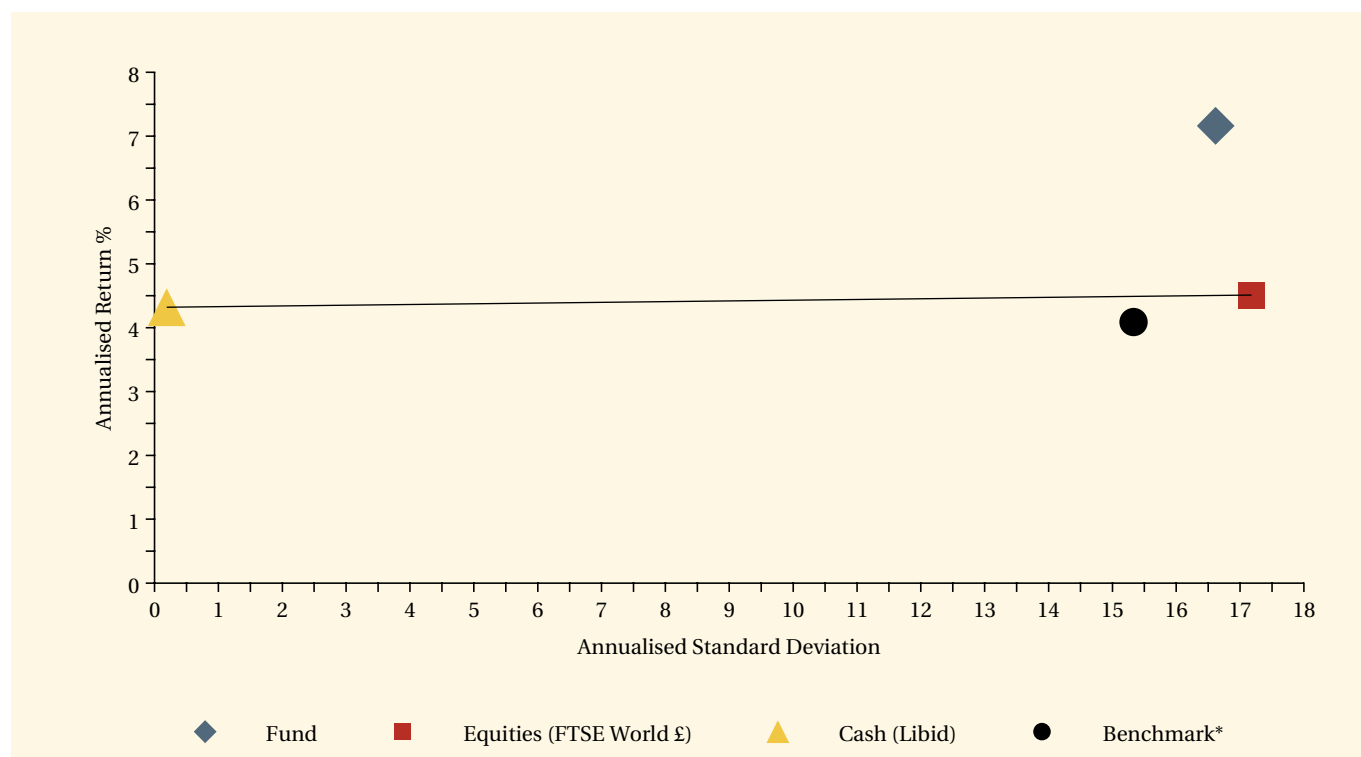
Risk factors

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	7.2%	16.6%	0.2
Benchmark*	4.1%	15.3%	0.0

Source: Lipper & Datastream, as at 30 September 2010. Calculation basis: Sterling, total return, bid to bid, without initial charges, net income reinvested, net of management fees.

*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 (£).

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.

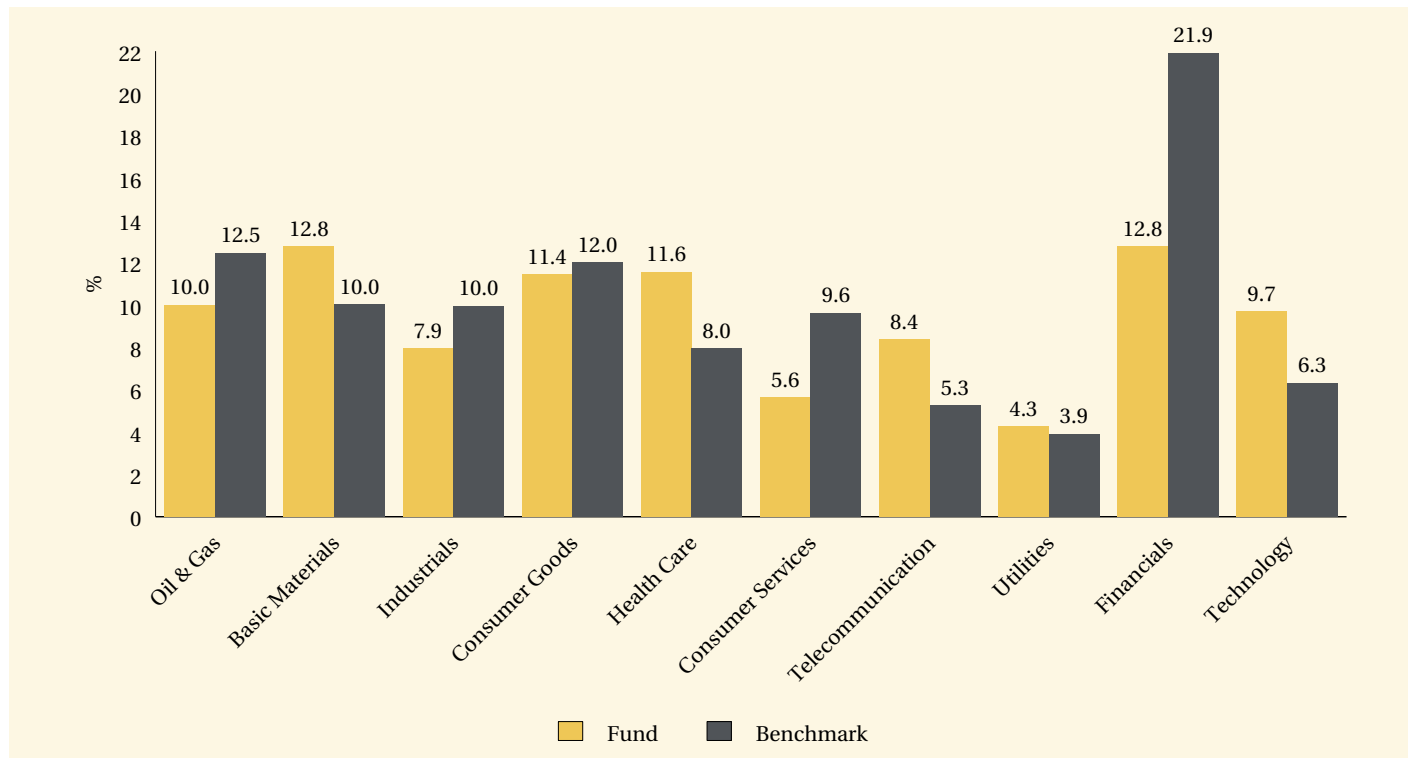
Strategy groups	Representatives from the strategy team, fund managers and research analysts identify global themes and formulate our economic view.
Research team	Global sector analysts, supported by fund managers, identify investment opportunities within the thematic backdrop.
Fund management	Fund managers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

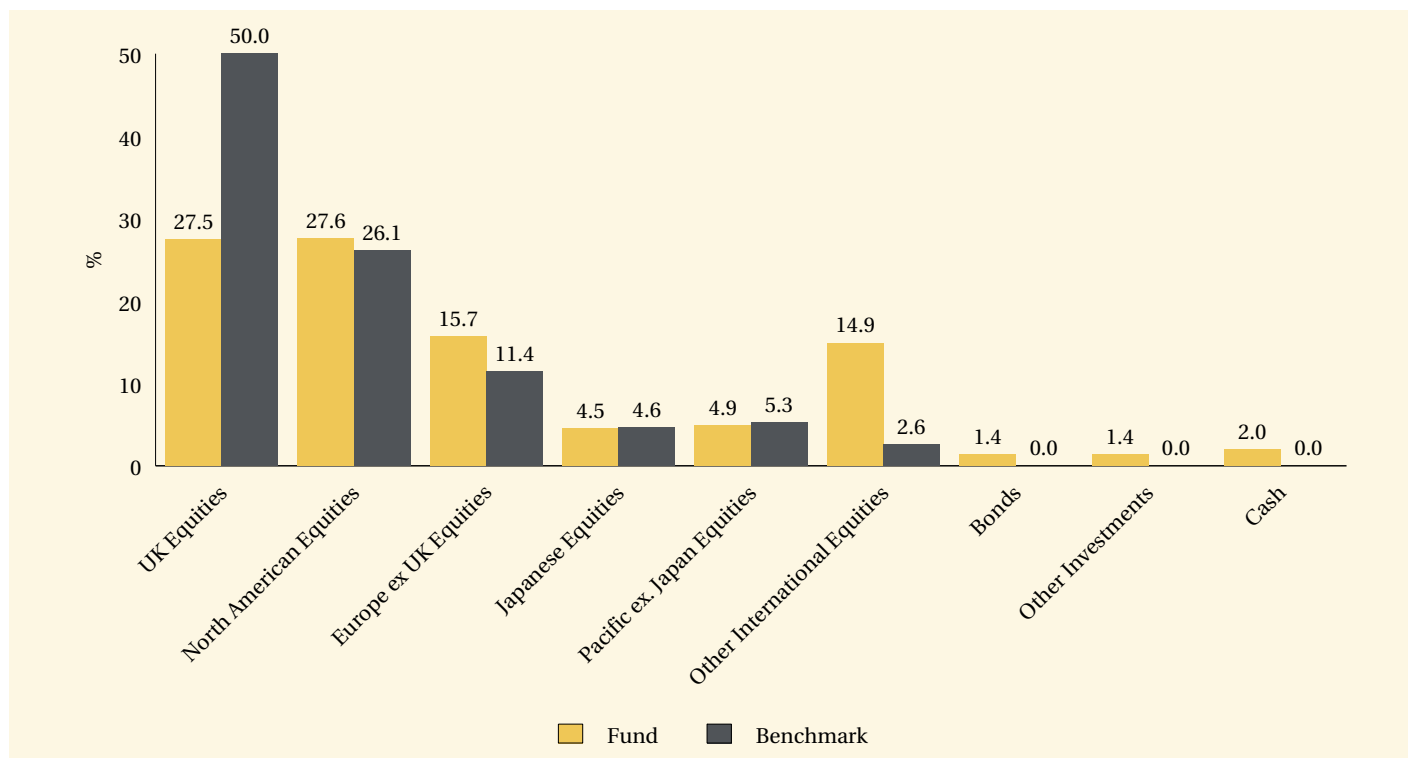
Theme	Factors	Investments
All change	The popping of the credit bubble has marked an end to the era of rapid growth in private sector debt in the developed world. Structurally impaired financial systems and impending regulatory burdens ensure that credit will be less freely available, and this has profound implications for consumer-driven economies, all asset classes and investment strategies.	Altria, Cable and Wireless, Eli Lilly, Flir Systems, GlaxoSmithkline, HTC, Intel, Nestle, limited exposure to western commercial banks
Developing economies	The influence of the developing world on the global economy continues to grow, and developing economies ultimately are on a convergence course, in terms of demographics and consumption trends, with the industrialised world. This long-term secular trend will entail the development of Western-style health and social security systems and will involve significant cyclical influences as well as frictions regarding trade policies.	Bangkok Bank, Copasa, Hypermarcas, Inpex, MTN, Natura Cosmetics, Sands China, Yingde Gases
Networked world	Although networks have already transformed our lives, the trend remains at a relatively early stage. Rapid increases in bandwidth continue to increase networks' range of uses and their interactivity, which in turn is driving productivity gains. The explosive growth of mobile internet, combined with innovations in sensor technology, will generate profound changes in many industries.	Accenture, Cisco Systems, HTC, MTN, Sprint Nextel
More government	State intervention and forms of managed capitalism hold sway over an increasing proportion of global output. With the increasing involvement of governments come more regulation, higher taxes and the prospect, ultimately, of slower growth and higher economic volatility. Local interests will take priority over global interests. The unpredictable nature of state intervention increases the risks in all asset classes.	Newcrest Mining, ETFS Physical Gold, Rossi Residencial

Fund analysis

Equity weightings by industry



Regional and asset class weightings



Source for all charts: Newton, as at 30 September 2010.

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.

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