Newton Balanced Bridge Fund

Investment Report - Third Quarter 2011

➢ A BNY MELLON COMPANY℠

NEWTON
The Power of Ideas

Contents

Fund information

Long-term track record

The Newton Balanced Bridge Fund has returned 87.9% since launch (23 December 1998), which is equivalent to 5.1% per annum. This is an outperformance of 1.3% 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 income and capital growth over the long term through a portfolio that is predominantly invested in equities, across a wide range of industries and countries. The equity element is balanced by cash, bonds and exposure to alternative assets, such as hedge funds, to reduce the overall volatility of the portfolio.
The fund takes guidance from the Newton Private Investment Management Income and Growth Model. The central asset allocation for the model is 60% invested in global equities and 40% invested in other asset classes which may include bonds, cash, hedge funds, structured products and property.

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. Please note that the frequency of the dividend has increased from semi-annually to quarterly. Please see pay dates below.

Performance references

Newton Balanced Composite (benchmark) & ARC Sterling Steady Growth. The Newton Balanced Composite benchmark comprises 40% FTSE All Share, 20% FTSE World ex UK, 15% FTA Govt All Stocks, 15% ML Sterling Non-Gilts & 10% 1 month £ LIBOR.

Risk profile

Suitable for investors with a medium risk profile.

Fund facts

Fund size (millions):	GBP 292	Ex dividend dates:	End Jan, Apr, Jul & Oct
Annual management charge:	0.8%	Pay dates:	2 business days before end Mar, Jun, Sep & Dec
Total expense ratio:	0.83%	Last distribution:	1.4118p per unit
Base currency:	GBP	ISIN:	GB0004833660
Dividend yield:	3.7%	Sedol:	0483366

Focus on the latest quarter

Performance over three months

Newton Balanced Bridge	-8.6%				
Newton Balanced Index	-7.1%	ARC £ Steady Growth est.	-8.6%		
FTSE All Share	-13.5%	FTSE W World (ex UK)	-14.9%	FTA Govt All Stocks	8.3%

Source: Lipper, Datastream & ARC, as at 30 September 2011. Calculation basis: Sterling, total return, bid to bid, without initial charges, net income reinvested, net of management fees.

Major contributors to relative performance

Positive	%
Rio Tinto PLC (not held)	0.46
Advanced Info Service PCL	0.31
Xstrata PLC (not held)	0.24
HSBC Holdings PLC (not held)	0.23
Barclays PLC (not held)	0.22

Negative	%
GOME Elec Appliances Hldgs Ltd	-0.36
Pandora A/S	-0.35
Man Wah Holdings Ltd	-0.35
Noble Group Ltd	-0.35
Hypermarcas SA	-0.25

Significant transactions

Acquisitions
Apple Inc.
UK Treasury Gilt 2.75% 22/01/2015
HSBC Bank 0% FTSE/S&P Autocall 04/09/17
UK Treasury Stock 4.25% 7/06/2032
Johnson Matthey PLC

Disposals
Siemens AG
Charter International PLC
SBM Offshore N.V.
Associated British Foods PLC
Zurich Financial Services AG

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

Fund manager report

Over the summer, disorder in the financial markets reflected that on the streets. Equity markets were shaken by the inability of politicians to take decisive action. In the US, an agreement to increase the budget deficit was finalised at the last minute with promises of yet to be defined future action to reduce the deficit. Nevertheless, this was not enough to prevent Standards & Poor's from downgrading US government debt from its AAA rating. Meanwhile in Europe, politicians seemed to prefer holidays to a concerted rescue plan for Greece which continues to teeter on the brink of defaulting on its bonds. Markets vented their displeasure with this state of affairs registering sharp declines at the end of July in to early August and have gyrated around to the end of September, thus wiping out the small gains that had previously been achieved. UK equities ended the quarter down 13.5% (FTSE All Share) and similarly, overseas equities fell in value by 14.9% (FTSE World ex UK).

In stark contrast, and ironically given that it is public debt causing the most uncertainty in financial markets, UK government bonds benefited strongly from the fear gripping investors who sought safety and rose 8.3% over the quarter (FTA Government All Stocks). We continue to view the valuation of government bonds relative to fundamentals as stretched and remain concerned about the longer term outlook for government bonds given the negative real (inflation adjusted) returns and the structural issues facing the backing of sovereign debt. While central banks continue to intervene in these markets, valuation and interpretation of this asset class remains difficult and we remain wary of the risks that current valuations pose, which have been adequately demonstrated by the losses registered by peripheral European government bonds. This long term view means that in periods of financial dislocation, such as we have recently experienced, we only partially benefit as we are lightly positioned in this area and this is one of the main factors behind this quarter's 1.5% underperformance.

In line with our *Deleverage* theme, which highlights the management and the side effects of the ongoing reduction in debt, the Fund continues to hold a core of defensive holdings in the healthcare and utility sectors, both of which performed relatively better during the quarter compared to the more cyclical oil and gas, and basic material sectors. In addition, the Fund has no exposure to UK domestic, EuroZone or American banks, which fell sharply reflecting the resurfacing of concerns surrounding the strength of the financial sector. We do not expect profitability to return strongly within these banks as the sector faces ongoing regulatory requirements for increased capital and uncertain asset values as bad debts are realised, which for European banks includes the losses on sovereign debt holdings.

A second factor in determining the underperformance of the Fund continues to be the exposure to Asia Pacific and Emerging Markets, which fell more than Western markets over the quarter. This was due to broad concern that the global economy was slowing, in addition to the continued fear that monetary policy in the region was being dictated by high inflation and therefore growth would be further constrained by increasing interest rates and capital controls, i.e. monetary tightening. Although volatile in the short term, we remain committed to our Global Realignment theme with Emerging Markets' share of global GDP forecast to exceed 50% in a few years time. Therefore, we are happy to retain this focus within the Fund, although acknowledge that it can add volatility to the overall fund return.

Against the prevailing backdrop, holding cash and retreating to the sidelines of financial markets may have superficial appeal, but in a world of ultra-low interest rates the opportunity cost of such a strategy is likely before long to become unpalatable, particularly if rising inflation erodes not only the real value of capital, but also the income generated by it. Falling equity markets can present opportunities and we took advantage of the recent falls to buy companies that we like for the long term, some of which had previously been too expensive, such as Apple, Johnson Matthey, Gome Electrical Appliances and Vale, and to add to existing names such as HTC and Taiwan Semi Conductor Manufacturer.

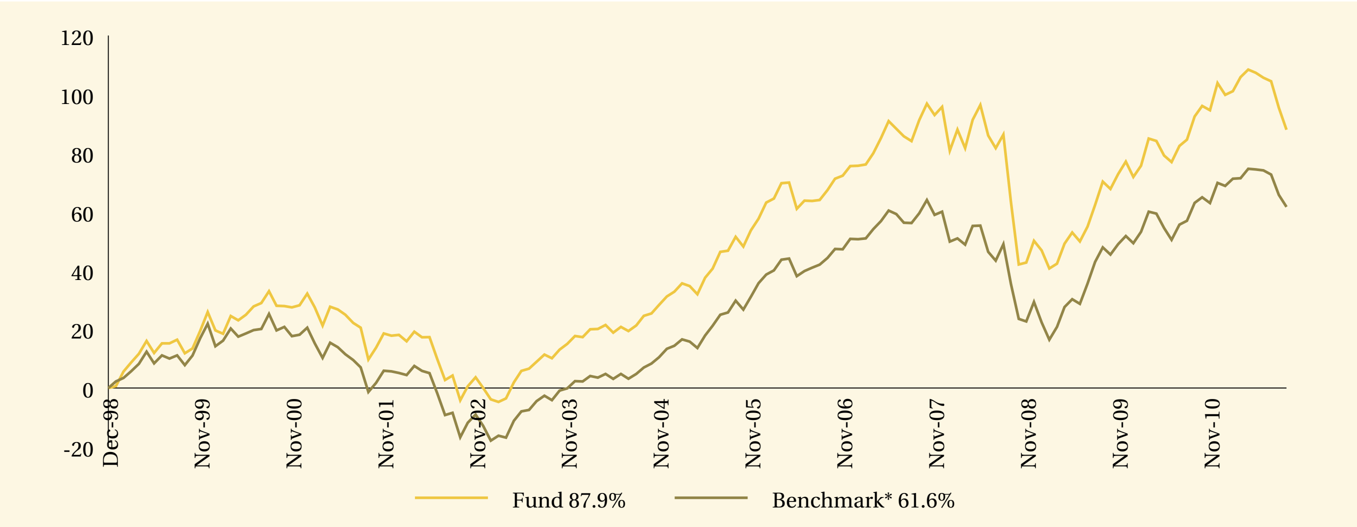
The world is in the midst of some momentous changes. Amongst them are the transition from debt-fuelled growth to an era of debt reduction in the western economies, the shift from a planet abundant in natural resources to one characterised by greater scarcity and a higher cost of energy and the 'realignment' of the world's economic power. To the long-term investor who heeds these fundamental changes, short-term volatility should herald opportunities, as much as risks.

Fund management team:

Julie-Ann Ashcroft and Caroline Tye

Long-term performance

Performance since launch (%)



	2002	2003	2004	2005	2006	2007	2008	2009	2010	YTD 2011
Fund	-15.1	17.7	11.5	20.2	11.4	11.5	-23.3	17.9	15.1	-7.8
Benchmark*	-17.5	17.5	10.8	19.6	11.1	6.1	-19.2	17.4	11.9	-4.8

Discrete past performance (%)

From	30/09/06	30/09/07	30/09/08	30/09/09	30/09/10
To	30/09/07	30/09/08	30/09/09	30/09/10	30/09/11
Fund	14.2	-14.5	4.2	13.0	-2.4

Source: Lipper, WM, Datastream & Bloomberg, as at 30 September 2011. Calculation basis: Sterling, total return, bid to bid, without initial charges, net income reinvested, net of management fees.

*The benchmark to 31 March 2009 was WM PCI Balanced. Thereafter it is the Newton Balanced Composite.The Newton Balanced Composite benchmark comprises 40% FTSE All Share, 20% FTSE World ex UK, 15% FTA Govt All Stocks, 15% ML Sterling Non-Gilts & 10% 1 month £ LIBOR.

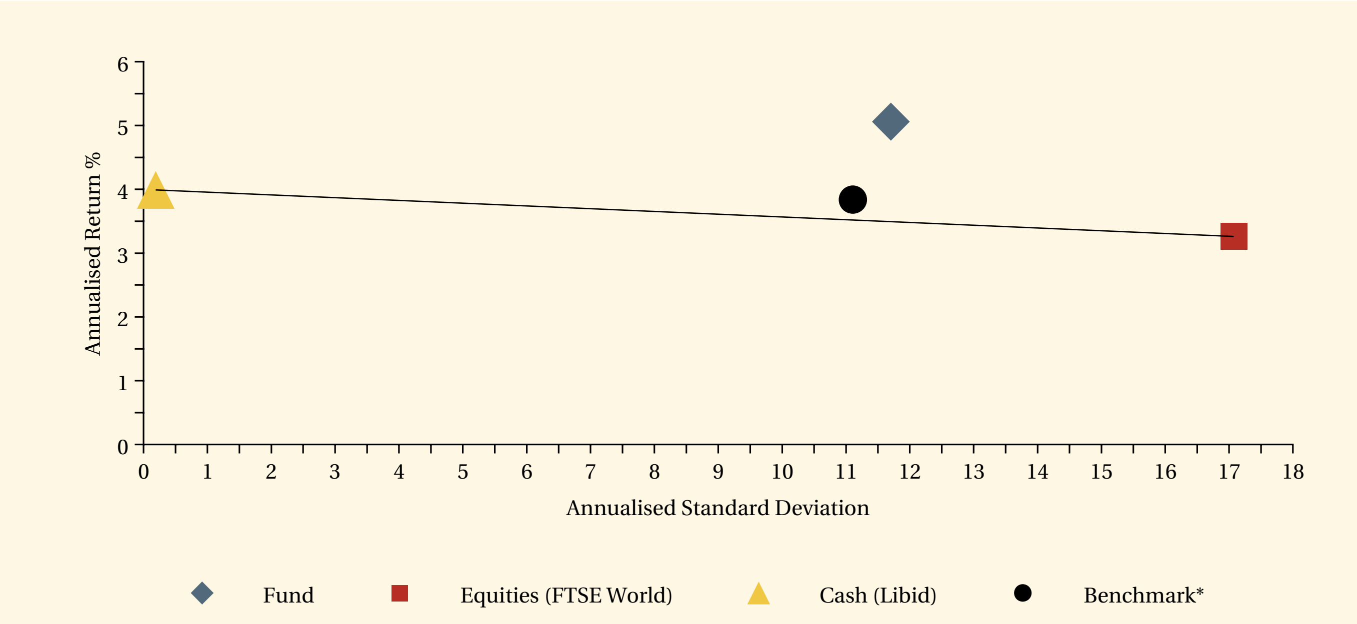
Risk factors

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 Balanced Bridge Fund has given a higher return than cash, world equities and the benchmark with slightly higher volatility than that of the benchmark. The launch date of the fund was 23 December 1998.

Risk and return since launch

	Annualised Return	Volatility	Sharpe ratio
Fund	5.1%	11.7%	0.1
Benchmark*	3.8%	11.1%	0.0

Source: Lipper, WM, Datastream & Bloomberg, as at 30 September 2011. Calculation basis: Sterling, total return, bid to bid, without initial charges, net income reinvested, net of management fees.

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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.

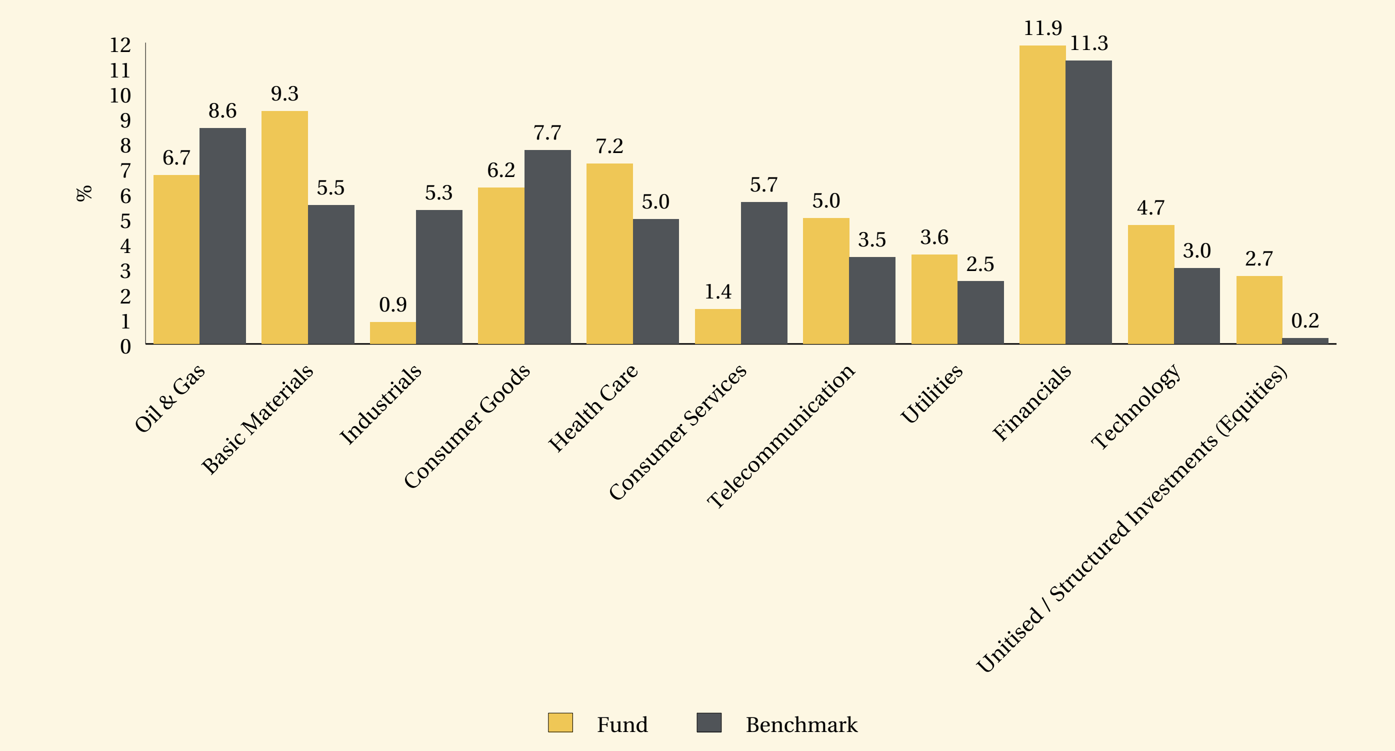
Strategy groups	Representatives from the strategy team, fund managers and research analysts identify global themes and formulate our economic view.
Research team	Global sector analysts, supported by fund managers, identify investment opportunities within the thematic backdrop.
Fund management	Fund managers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

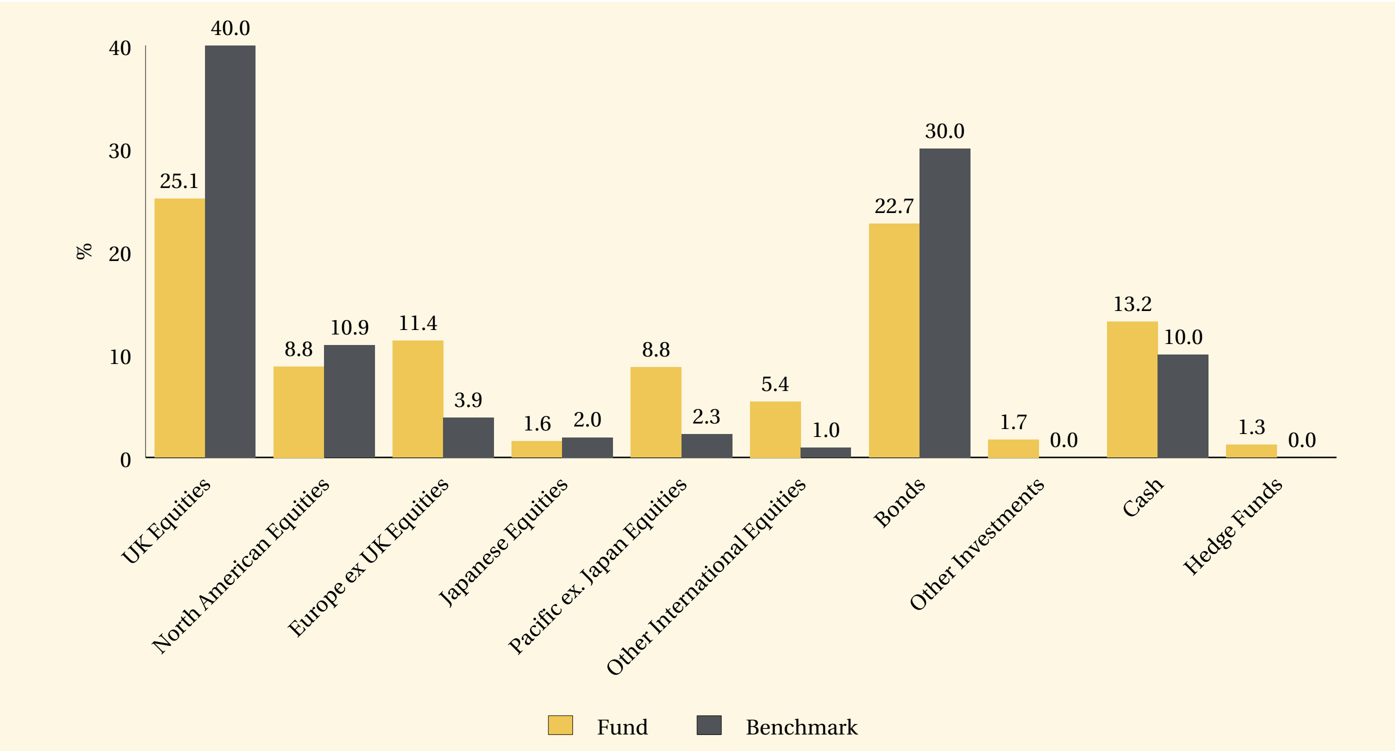
Theme	Factors	Investments
Deleverage	The credit bubble has left many economies carrying levels of debt which materially impair their economic prospects. We anticipate an extended period of relatively low growth and higher economic volatility as debt is reduced to more manageable levels. The scale of 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.	Barrick Gold, GSK, infrastructure funds, Jardine Lloyd Thompson, Newcrest Mining, Scottish & Southern
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.	Bangkok Bank, Mapletree Logistics, Petrobras, Rei Agro, TSMC
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.	Apple, Applied Materials, HTC, MTN, Telekomunikacja Polska
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.	Bayer, GSK, Novartis, Roche, Sanofi

Fund analysis

Equity weightings by industry



Regional and asset class weightings



Source for all charts: Newton, as at 30 September 2011.

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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