

Newton Balanced Bridge Fund

Investment Report - Fourth Quarter 2011

► A BNY MELLON 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
Fund analysis	7
Glossary	8

Fund information

Long-term track record

The Newton Balanced Bridge Fund has returned 94.6% since launch (23 December 1998), which is equivalent to 5.2% per annum. This is an outperformance of 1.0% 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 294	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:	0.8744p per unit
Base currency:	GBP	ISIN:	GB0004833660
Dividend yield:	4.1%	Sedol:	0483366

Focus on the latest quarter

Performance over three months

Newton Balanced Bridge	3.5%				
Newton Balanced Index	5.9%	ARC £ Steady Growth est.	3.4%	IMA Mixed 40-85% Shs	3.9%
FTSE All Share	8.4%	FTSE W World (ex UK)	7.5%	FTA Govt All Stocks	5.0%

Source: Lipper, Datastream & ARC, as at 31 December 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	%
Aberdeen Asset Management PLC	0.18
Total SA	0.14
Statoil ASA	0.13
HSBC Holdings PLC	0.12
Man Wah Holdings Ltd	0.12

Negative	%
HTC Corporation	-0.33
BP PLC	-0.25
Noble Group Ltd	-0.20
Huabao Intl Holdings Ltd	-0.19
Rei Agro Ltd	-0.16

Significant transactions

Acquisitions
UK Treasury Gilt 3.75% 07/09/2020
ETFS Physical Gold 0% Secured Note (USD)
Marks & Spencer PLC 6.125% Bds 06/12/2021
BP PLC
Microsoft Corp.

Disposals
UK Treasury Gilt 4.25% 7/12/2040
UK Treasury Stock 4.25% 7/06/2032
Fresenius Medical Care AG & Co. KGaA
RSA Insurance Group PLC
Capita FM Morant Wright Japan B (Acc)GBP

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

Fund manager report

As a year of revolutions and riots drew to a close, scientists were reported to have discovered new Earth-like planets, hundreds of light years away. Investors, however, found only repeated challenges closer to home. The lengthening roll call of deceased despots – to Osama Bin Laden's name were added those of Muammar Gaddafi and Kim Jong-il towards the end of the year – may, superficially, have appeared to make the world a safer place, but financial markets remained capricious and volatile. Many of the world's major financial markets posted gains over the fourth quarter, but these gains belied large fluctuations in asset prices during the closing months of the year.

Most prominent among the challenges was continued uncertainty about the eurozone sovereign debt crisis, and in particular the

persistent failure of authorities to tackle it effectively. The full implications of the crisis continue to unfold, but already it has caused a significant reshaping of European politics. Following earlier changes of administration in Ireland and Portugal, unelected technocrat governments were appointed in Greece and Italy in November, and the UK's veto of a European Union-wide treaty in December seemed likely to alter fundamentally the country's relationship with the rest of the continent.

During a quarter of commotion, it was remarkable that the major equity markets, with the exception of Japan, made gains. UK equities (FTSE All Share) returned 8.4% in the quarter but were down 3.5% for the full year; similarly, overseas equities (FTSE W World ex UK) rose 7.5% in the quarter but were

down 6.1% for the year. UK government bonds (FTA Government All Stocks) rose 5%, underperforming equities during the quarter but significantly outperforming them over the full year with a 15.6% return. It is an example of the unusual times we find ourselves in when UK equity and bond markets moved in the same direction as they did over the recent period, i.e. both went up.

It is disappointing to report that your Fund underperformed its benchmark over the quarter (+3.5% vs +5.9%), resulting in underperformance for the year (-4.5% vs +0.8%). Our peers also suffered in these unpredictable markets, evidenced by the returns generated by the peer group ARC index, for a fund with a comparable risk profile, which underperformed your fund over the quarter (+3.4%) and the year (-4.8%). The Fund also outperformed the IMA sector return for Funds with similar objectives over the year.

The main factor in the underperformance of the Fund over the year was the lower level of investment in UK Government Bonds compared to the benchmark. This decision was driven by our concern about the longer-term outlook for the asset class given the negative real (inflation adjusted) returns and the structural issues facing the backing of sovereign debt. As highlighted previously, we believe that the longer term outlook for bonds is negative as we anticipate inflation to increase faster than interest rates. This is a reverse of the environment enjoyed by the sector for the last 30 years, which proved very positive for returns. However, we currently maintain a position given the technical support offered by government intervention in the form of Quantitative Easing; needless to say, this is being closely monitored. We continue to favour corporate bonds, which offer greater fundamental value.

The second biggest negative impact on performance was the exposure to Pacific ex Japan equities, particularly China. The FTSE Secondary Emerging Market index fell 19% during the year and the FTSE Asia Pacific ex Japan index fell 13%. Our exposure in this area is supported by our *Global Realignment* theme; this is driven by our longer term view that an ever - growing share of global GDP growth will continue to be generated by these regions, although we acknowledge that it can add volatility to the Fund in the shorter term.

Our *Deleverage* theme remains the biggest driver of long term positioning within the Fund, as it has since the Financial Crisis. In particular, we believe that the manner in which countries reduce their debt burden over the coming years and the impact of policies implemented will be critical for global

growth, and hence significant in shaping our investment outlook. As a result, the Fund has a core of holdings with defensive characteristics that offer stability of return in the form of a greater focus on income, strong free cash flow generation, robust balance sheets and some visibility to earnings. This also leads us to hold no UK, Euro Zone or US banks, which are particularly linked to the impact of broader financial deleverage and sovereign debt crisis in Europe. This was the biggest positive contributor to performance over the year. In addition, the overweight positions in the sought after healthcare and tobacco 'safe haven' sectors were positive for performance.

Over the quarter, we took advantage of market moves to add to increase our focus on defensive names by introducing AT&T and adding to Johnson Matthey and Nestle. These purchases were funded by sales of Anglo American, Go-Ahead and Mosaic as we reduced exposure to more cyclical areas.

In line with our focus on *Global Realignment*, we took advantage of market moves to add to the recently introduced Vale and Consol Energy, in addition to the Chinese electrical appliance provider Gome Electrical Appliances.

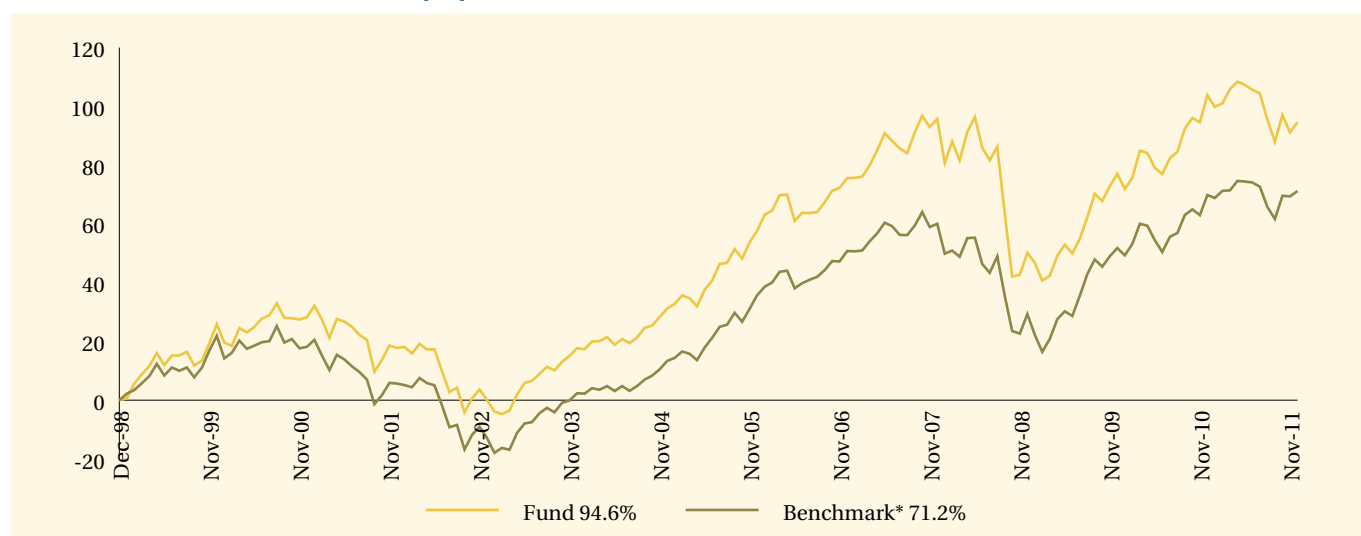
As we move into 2012 we expect a continuation of the lower growth, higher volatility environment that we experienced in 2011. The issues facing the Eurozone are far from resolved, many countries are facing tough austerity measures which may hinder economic growth and politics is likely to hit the headlines with elections in several key countries, most notably in the United States. While our longer term thematic approach allows us to look beyond short-term news flow, heightened volatility also presents interesting investment opportunities. With this in mind we will look to buy or add to securities in whose long term prospects we have high conviction should we see periods of market weakness.

Fund management team:

Julie-Ann Ashcroft and Caroline Tye

Long-term performance

Performance since launch (%)



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Fund	-15.1	17.7	11.5	20.2	11.4	11.5	-23.3	17.9	15.1	-4.5
Benchmark*	-17.5	17.5	10.8	19.6	11.1	6.1	-19.2	17.4	11.9	0.8

Discrete past performance (%)

From	31/12/06	31/12/07	31/12/08	31/12/09	31/12/10
To	31/12/07	31/12/08	31/12/09	31/12/10	31/12/11
Fund	11.5	-23.3	17.9	15.1	-4.5

Source: Lipper, WM, Datastream & Bloomberg, as at 31 December 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.

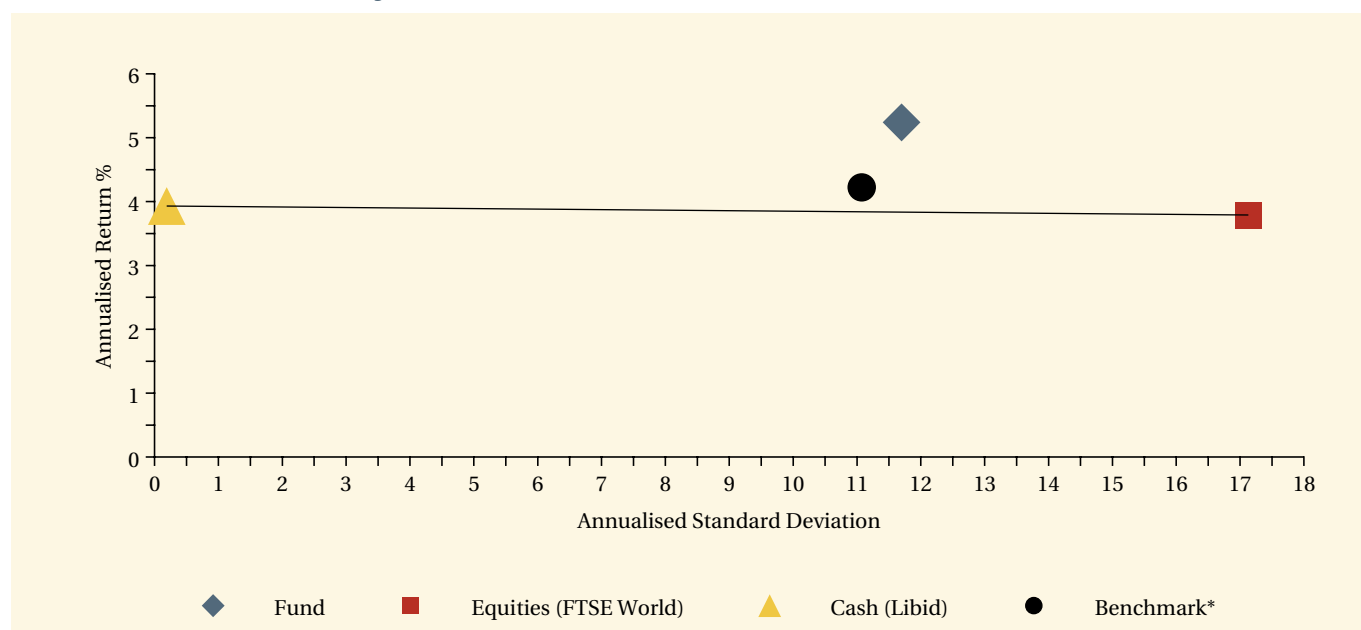
Risk factors

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	5.2%	11.7%	0.1
Benchmark*	4.2%	11.1%	0.0

Source: Lipper, WM, Datastream & Bloomberg, as at 31 December 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.

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.

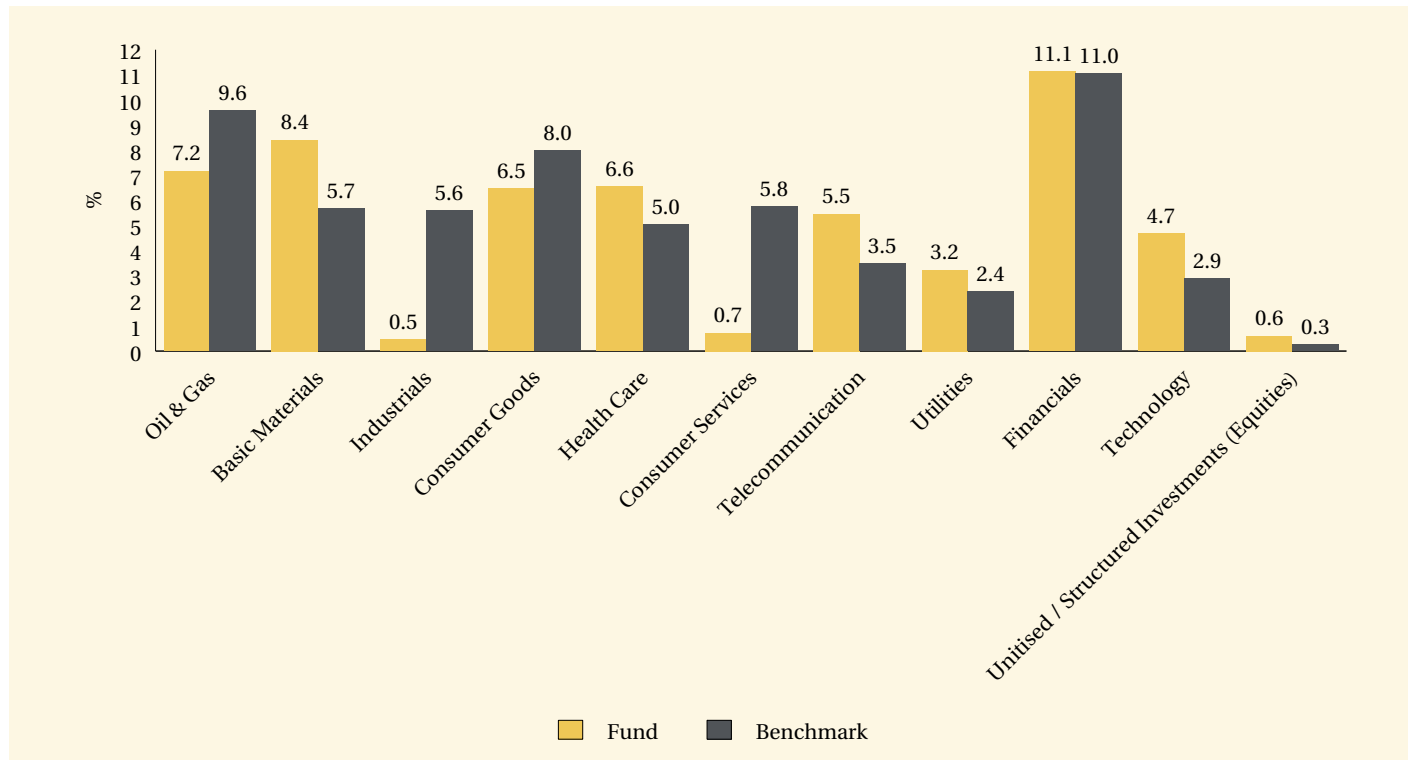
Strategy groups	Representatives from the strategy team, fund managers and research analysts identify global themes and formulate our economic view.
Research team	Global sector analysts, supported by fund managers, identify investment opportunities within the thematic backdrop.
Fund management	Fund managers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

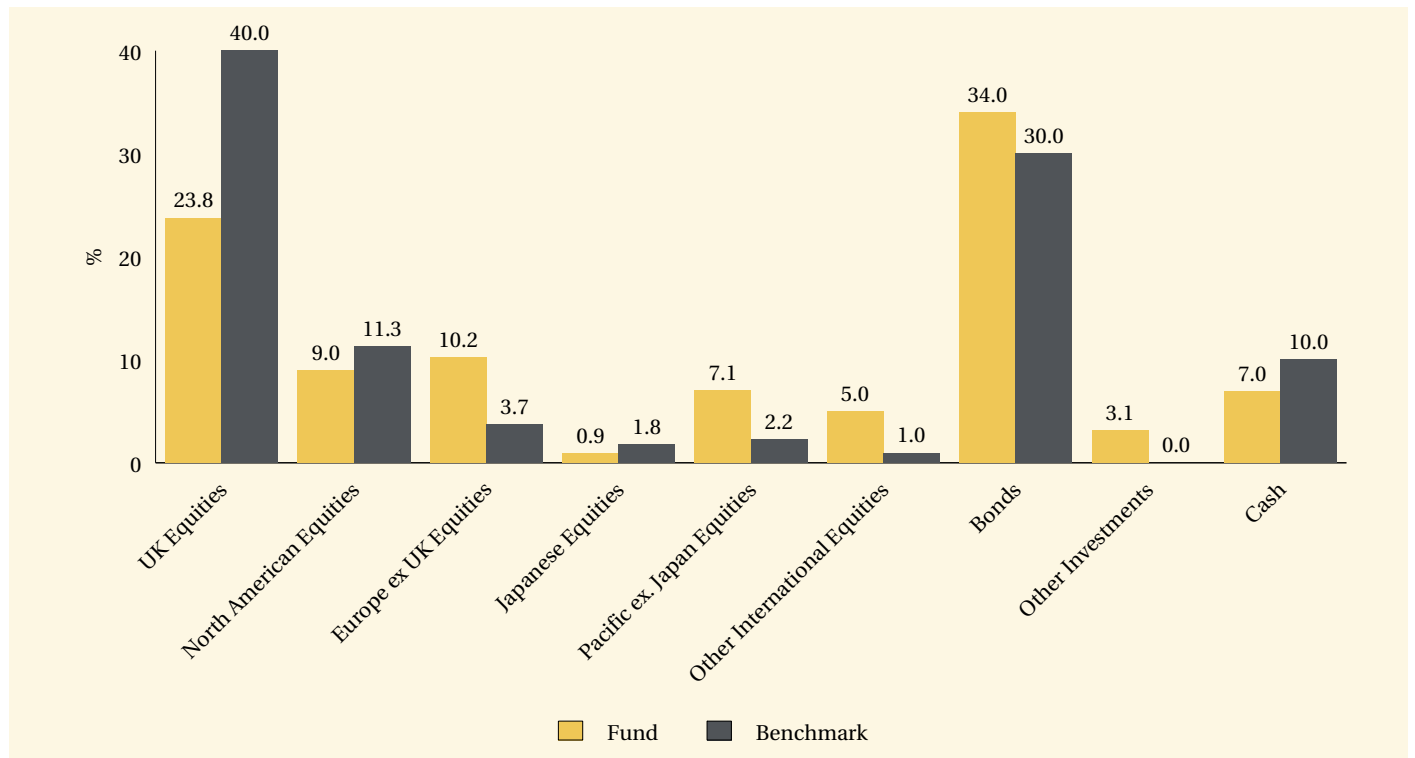
Theme	Factors	Investments
Deleverage	The credit bubble has left many economies carrying levels of debt which materially impair their economic prospects. We anticipate an extended period of relatively low growth and higher economic volatility as debt is reduced to more manageable levels. The scale of 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, Gome Electrical Appliances, 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 31 December 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.

Issued by the Investment Adviser, Newton Investment Management Limited (NIM). The Newton Balanced Bridge Fund is an authorised unit trust operated by BNY Mellon Fund Managers Limited (BNY MFM). Registered Office for NIM and BNY MFM: BNY 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 Balanced Bridge Fund

Newton Investment Management Limited

020 7163 9000
privateclients@newton.co.uk

London

BNY Mellon Centre
160 Queen Victoria Street
London EC4V 4LA

Edinburgh

2 Festival Square
Edinburgh EH3 9SU

Leeds

No.1 Whitehall Riverside
Leeds LS1 4BN

