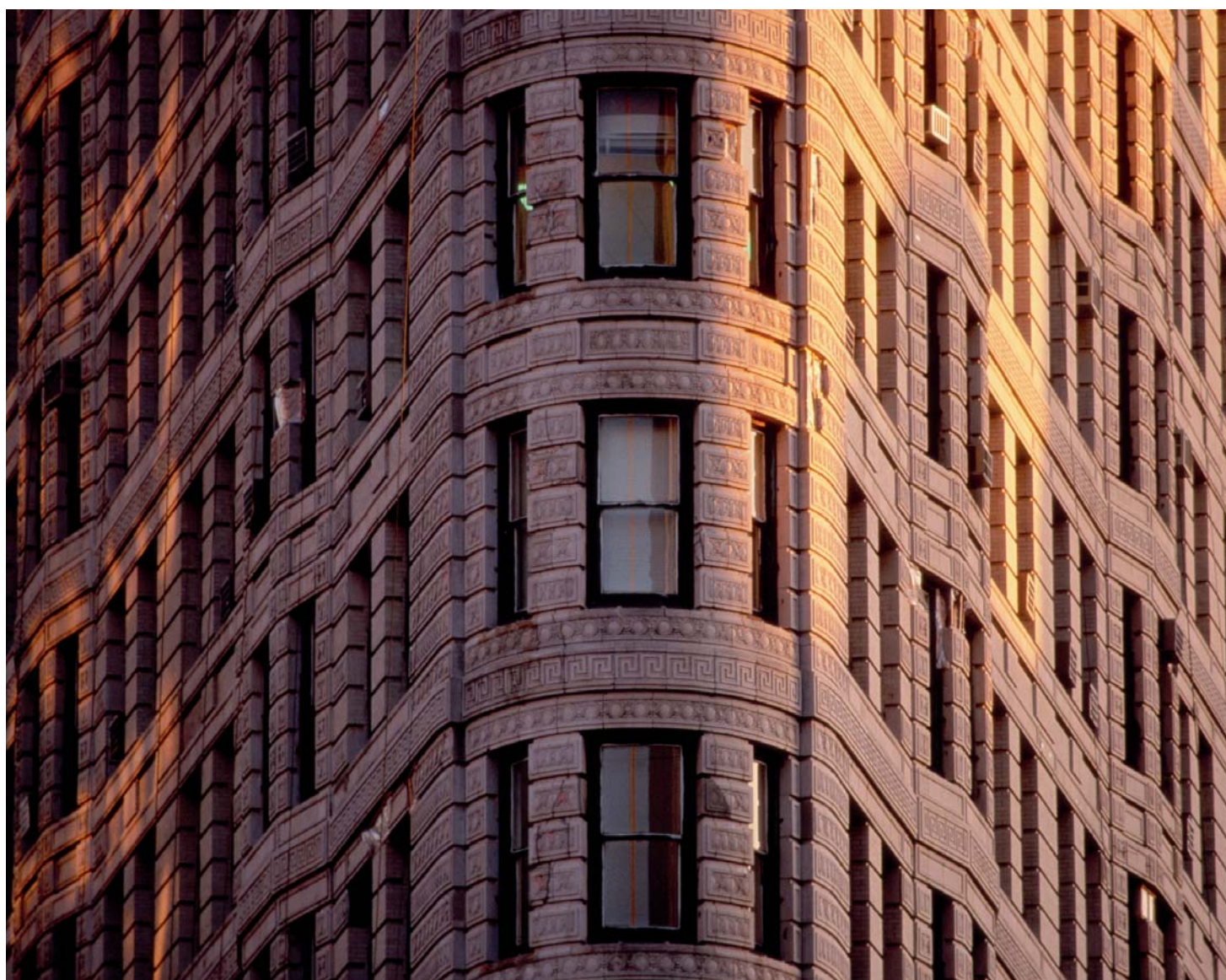


Newton Offshore Strategy Fund Global Balanced

Investment Report - Fourth Quarter 2008

► A BNY MELLON ASSET MANAGEMENT COMPANYSM

NEWTON
The Power of Ideas



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Fund information

Long-term track record

The Newton Offshore Strategy Fund (NOSF) Global Balanced Fund has returned 18.5% since launch (8 February 2001), which is equivalent to 2.2% per annum. This is an underperformance of -0.1% 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 a balanced return from income and capital growth with a portfolio of global securities predominantly invested in equities, bonds and cash. Derivatives may be used to reduce the overall volatility.

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: Low, but the dividend is likely to grow over the long term.

Performance references

The benchmark is 70% FTSE W World Index, 25% Citigroup WGBI, 5% Libid 1 Month GBP.

Risk profile

Suitable for investors with a medium risk profile.

Fund facts

Fund size (millions):	GBP 6	Ex dividend dates:	31 Dec, 30 Jun
Annual management charge:	1.0%	Pay dates:	28 Feb, 31 Aug
Total expense ratio:	1.16%	Last distribution:	1.2153p per unit
Base currency:	GBP	ISIN	GB0009461590
Dividend yield:	2.1%	Sedol	0946159

Focus on the latest quarter

Performance over three months

NOSF Global Balanced	6.7%				
Benchmark	6.5%	ARC Steady Growth (est)	-5.2%		
FTSE W World	-3.2%	Citigroup WGBI	6.5%	Libid 1 month	1.2%

Source: Lipper, Datastream & ARC, as at 31 December 2008. Calculation basis: Sterling, total return, bid to bid, without initial charges, gross income reinvested, net of management fees.

Major contributors to relative performance

Positive	%
Newcrest Mining Ltd	0.75
Archer Daniels Midland Co	0.50
Sawai Pharmaceutical Co Ltd	0.44
Corinthian Colleges Inc	0.42
Bank of America Corp	0.26

Negative	%
Reed Elsevier NV	-0.15
Deutsche Boerse AG	-0.14
Jardine Lloyd Thompson Group	-0.14
eBay Inc	-0.13
Cable & Wireless PLC	-0.12

Significant transactions

Aquisitions
USA Treasury Notes 4.5% 15/5/2038
Corinthian Colleges Inc
Novartis AG
British American Tobacco PLC
Reed Elsevier NV

Disposals
Altria Group Inc
eBay Inc
A P Moller-Maersk A/S
Gildan Activewear Inc
BHP Billiton PLC

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

Fund managers' report

Investors (and investment managers) will have been relieved to say farewell to 2008. Across all asset classes (and pseudo-asset classes such as hedge funds), with the notable exceptions of sovereign bonds, cash and artwork by Damien Hirst, returns have been correlated increasingly on the downside and miserable to boot. For sterling investors, poor returns have been mitigated by the 25% decline in the currency during the year. We underestimated, indeed, both investors' demand for 'safe-haven' assets such as government bonds in the markets' downturn and the willingness to accept negligible returns in exchange for security. Fears of short-term disinflation/deflation justify such purchases but, on a longer-term horizon, government bonds appear to offer "return-free risk", given many central bankers' increasing willingness to embrace 'quantitative easing' (a.k.a. printing money in ever-excessive quantities) and, in the case of the Federal Reserve, the

determination "to employ all available tools to promote the resumption of sustainable economic growth".

If there is only one lesson of 2008 to cherish, it is encapsulated in E M Forster's now somewhat hackneyed dictum "only connect". 2008 was not simply a question of investors avoiding the global financial sector (despite irritating periods of outperformance). 2008 provided also the challenge of assessing properly, in timely fashion, the widespread impact of the closure of the credit markets. We avoided, in great part, the financial sector but did not appreciate fully the impact on economies and portfolios of forced deleveraging. Whilst recognising the longer-term opportunities within global markets, and emerging markets in particular, we never embraced wholeheartedly the argument for the "decoupling" of the developed and the developing world. Portfolios were geared,

however, to the expansion of global trade and to the provision/exchange of services, for globalisation has acted, in the last decade, as a conduit of mutual (if leverage-enhanced) enrichment; in the short term, globalisation has been, alas, the route along which the infection of the credit squeeze has been transmitted.

There is little optimism around, whether one is politician, central or investment banker, industrialist, consumer or investment manager. Current forecasts of economic or market improvement receive sceptical and unenthusiastic support and, if there is any consensus, it suggests further economic and market deterioration: shrinkage of nearly all economies, out with China, Brazil and India, according to the World Bank; contraction in lending and higher costs for those who manage to borrow; cutbacks in investment, both corporate and social; higher unemployment; poor corporate results and dividend cuts. Equally worrying is the almost general consensus that 2009 will prove to be the worst year of the current downturn and that, consequently, stock markets will rally in the second half of 2009 in the anticipation of an improving economic environment in 2010. Inflation hardly receives a serious mention, deflation is regarded as the current enemy of economic recovery and sovereign bonds consequently retain their fan club, despite their expensiveness.

Newton acknowledges that “*it really is different this time*”. For all the cuts in interest rates, the flooding of economies and markets by fiscal and monetary means, (with special packages for banks, insurance companies, automobile manufacturers and for any industry with clout), the credit markets remain dangerously constipated. A resolution is awaited to the inherent contradiction in expecting banks to rebuild their capital bases (sometimes at usurious rates) whilst continuing previously “normal” lending practices. The abuse/diversion by Mr Paulson of the funds raised in the T(roubled) A(ssets) R(elief) P(rogramme) approved by Congress has not helped. Debt reduction and asset liquidation will be prolonged also by the ramifications of the Madoff ‘Ponzi’ scandal. Central banks will need to remain the lenders of first and last resort, roles they assumed reluctantly in 2008 and, whatever the rhetoric, governments cannot force bankers to lend; indeed, actions

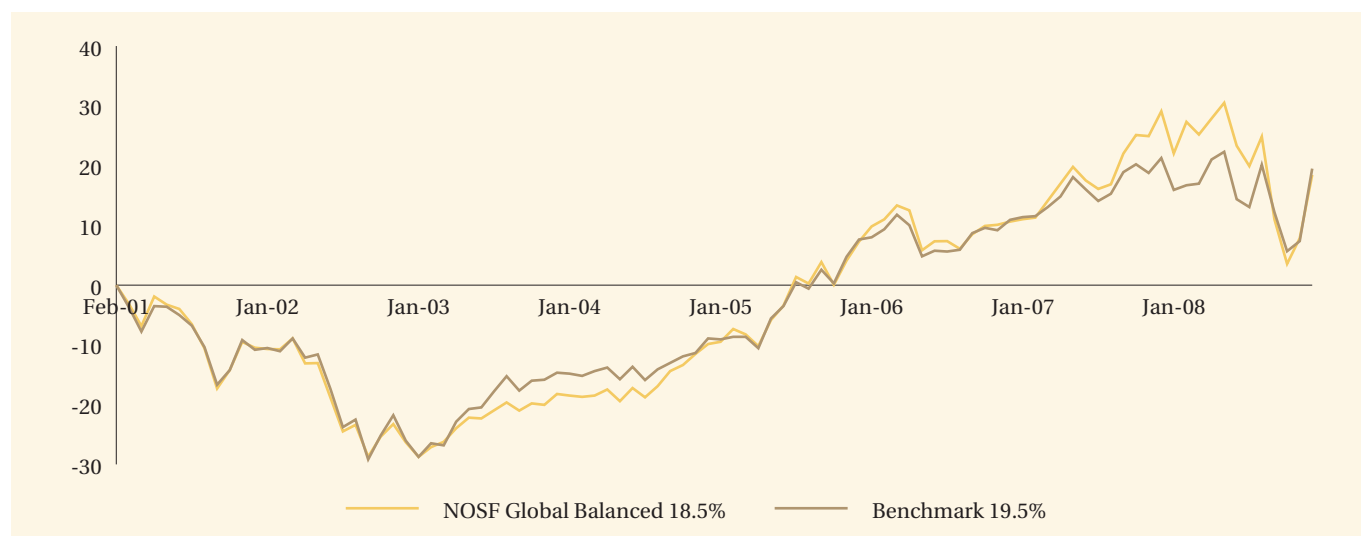
designed to make things better often have the opposite effect.

With such a gloomy outlook (which is highlighted almost daily by press and TV, itself an indicator perhaps that some/much of the bad news is discounted), it may be perverse to discern some relief for the economy, industry, the consumer and the investor. Most notable is the current decline in oil and food prices which ‘returns’ in excess of \$10 billion per day to consumers. Advantageous mortgage refinancing is under way in the United States; retail price wars offer the consumer (even) greater value for money; many inventories are being maintained at “just-in-time” levels; any improvement in demand consequently should feed through to activity and job creation with little delay.

It may seem equally perverse to champion renewed stock market investment. Risk and reward are attributes of price, and prices are depressed, with many markets (outwith a number in the developing world) having lost all appreciation enjoyed in the last decade or more: Japan, indeed, stands at 1982 levels. The magnitude of the markets’ recent reverse has been disguised by the relative outperformance of heavyweight ‘defensive’ sectors such as pharmaceuticals. Investors are faced, indeed, by the now almost traditional conundrum that equities, when inexpensive, are shunned: probably the only product which, when it falls in price, is deemed less of a bargain. Conversely, government bonds are sought, with impatience, the lower the yields on offer. Low interest rates, meanwhile, reduce the attraction of holding cash. Dividend yields are not as secure as Newton would like and for that reason we do not advocate wholesale equity indulgence. We prefer, as a half-way house, to continue to purchase selectively investment-grade bonds whose higher yields appear to over-compensate for likely defaults. Markets and currencies are likely to remain volatile whilst economies are ‘stabilised’ and whilst the new US President starts to address the domestic and geopolitical challenges which have arisen in recent months. The timing and magnitude of reward from investment is uncertain; to receive a yield in excess of those available from cash and government bonds whilst one waits for value to emerge has had its attractions always, for “*to everything there is a reason and a time to every purpose under the heaven*” (Ecclesiastes).

Long-term performance

Performance since launch



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
NOSF Global Balanced	-	-	-	-17.7	11.0	10.2	19.0	3.2	16.7	-8.2
Benchmark	-	-	-	-17.0	15.4	6.7	18.2	3.1	9.3	-1.5

Discrete past performance - percentage change

From	31/12/03	31/12/04	31/12/05	31/12/06	31/12/07
To	31/12/04	31/12/05	31/12/06	31/12/07	31/12/08
NOSF Global Balanced	10.2%	19.0%	3.2%	16.7%	-8.2%

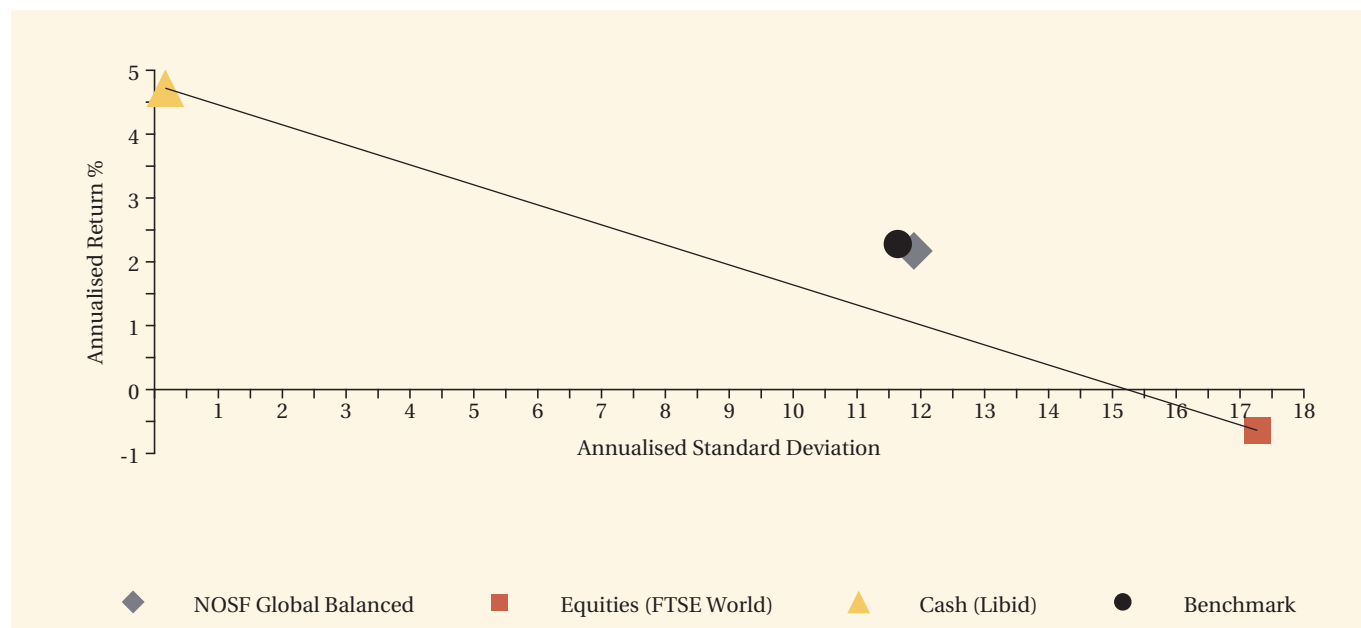
Source: Lipper, Datastream, as at 31 December 2008. Calculation basis: Sterling, total return, bid to bid, without initial charges, gross income reinvested, net of management fees.

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 NOSF Global Balanced Fund has given a slightly lower return than the benchmark with similar volatility. The launch date of the fund was 8 February 2001.

Risk and return since launch

	Annualised Return	Volatility	Sharpe ratio
NOSF Global Balanced	2.2%	11.9%	-0.2%
Benchmark	2.3%	11.6%	-0.2%

Source: Lipper, Datastream, as at 31 December 2008. Calculation basis: Sterling, total return, bid to bid, without initial charges, gross 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.

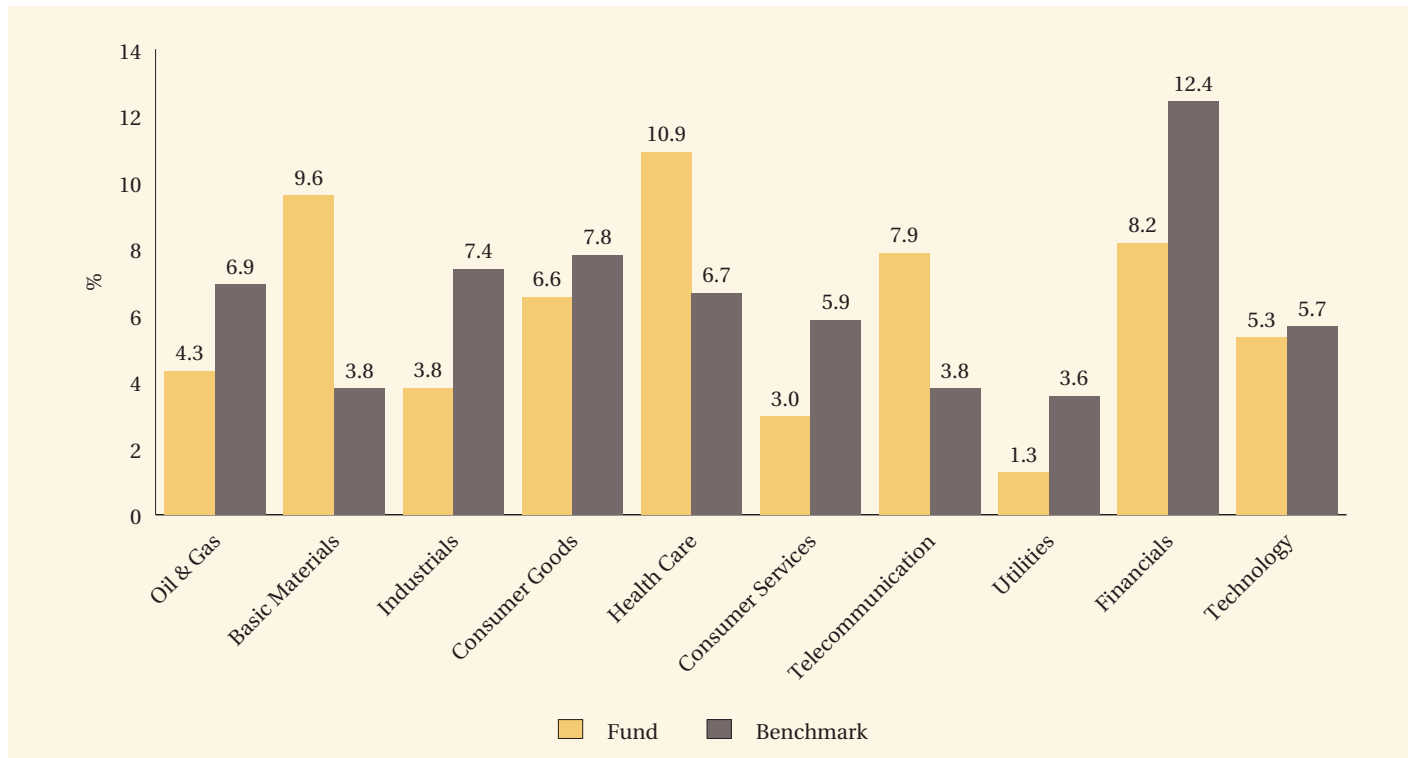
Strategy groups	Representatives from the strategy team, fund managers and research analysts identify global themes and formulate our economic view.
Research team	Global sector analysts, supported by fund managers, identify investment opportunities within the thematic backdrop.
Fund management	Fund managers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

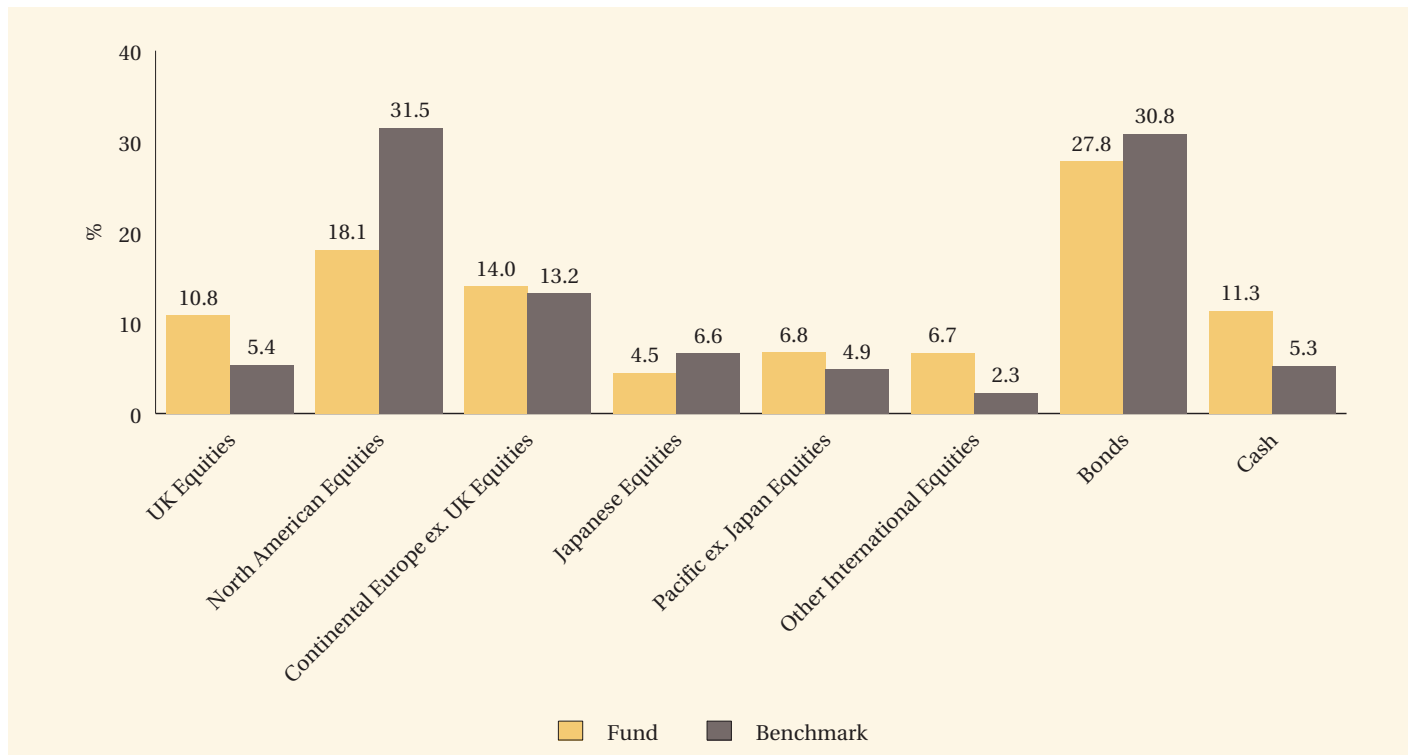
Theme	Factors	Investments
Earth Matters	Environmental issues have moved to centre stage in the minds of the public and policy makers. Current growth trends in the developing world suggest significant additional stress on resources and the environment.	Acciona, Mosaic, Fortum, Archer Daniels Midland
All 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.	No property, Novartis, British American Tobacco, No commercial banks in UK, USA or Continental Europe
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.	Vodafone, Telefonica, Sprint Nextel, Millicom, Cable & Wireless
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.	BP, Anadarko Petroleum, Petroleo Brasileiro,

Fund analysis

Equity weightings by industry versus benchmark



Regional and asset class weightings versus benchmark



Source for all charts: Newton, as at 31 December 2008.

Portfolio valuation

	Holding (%)
Equities	60.86
Oil & Gas	4.33
Oil & Gas Producers	4.33
Anadarko Petroleum Corp	1.27
Petroleo Brasileiro SA	0.90
StatoilHydro ASA	1.07
Talisman Energy Inc	1.08
Basic Materials	9.61
Chemicals	4.82
Air Liquide SA	1.40
Bayer AG	1.71
Mosaic Co	1.71
Mining	4.79
Minas Buenaventura SA	2.19
Newcrest Mining Ltd	2.60
Industrials	3.82
Construction & Materials	1.09
Acciona SA	1.09
Aerospace & Defence	1.30
L3 Communications Inc	1.30
Industrial Transportation	1.43
Canadian Pacific Railway Ltd	1.06
Pacific Basin Shipping Ltd	0.37
Consumer Goods	6.56
Food Producers	3.57
Archer Daniels Midland Co	1.43
Nestle SA	2.15
Tobacco	2.98
British American Tobacco PLC	1.19
Japan Tobacco Inc	1.79
Health Care	10.92
Health Care Equipment & Services	2.38

Portfolio valuation

Fresenius Medical Care AG	1.54
Parkway Holdings Ltd	0.84
Pharmaceuticals & Biotechnology	8.54
Finsbury Worldwide Pharma Tst	2.21
GlaxoSmithKline PLC	2.03
Johnson & Johnson	1.64
Novartis AG	1.31
Sawai Pharmaceutical Co Ltd	1.34
Consumer Services	2.96
General Retailers	1.80
Corinthian Colleges Inc	1.80
Media	1.16
Reed Elsevier NV	1.16
Telecommunication	7.88
Fixed Line Telecommunications	3.11
Cable & Wireless PLC	1.73
Tele Norte Leste Participacoes	1.38
Mobile Telecommunications	4.78
Millicom Intl Cellular	1.97
Sprint Nextel Corp	0.82
Vodafone Group PLC	1.98
Utilities	1.28
Electricity	1.28
Fortum Oyj	1.28
Financials	8.18
Banks	2.44
DBS Group Holdings Ltd	0.90
DBS Group Holdings Ltd NPV Sub Rts (23/1/2009)	0.16
Standard Chartered PLC	1.38
Nonlife Insurance	1.38
Jardine Lloyd Thompson Group	1.38
General Financial	4.35
Deutsche Boerse AG	1.32
ICAP PLC	1.14

Portfolio valuation

Keefe Bruyette & Woods Inc	1.90
Technology	5.34
Software & Computer Services	0.63
Ariba Inc	0.63
Technology Hardware & Equipment	4.71
Canon Inc	1.38
Cisco Systems Inc	1.43
Samsung Electronics Co Ltd	1.90
Bonds	27.82
Government Bonds	9.09
Overseas Bonds	9.09
Germany (Fed Rep) 6.25% Bds 4/1/2030 EUR0.01	4.29
USA Treasury Notes 3.875% 15/2/2013 USD1000	2.24
USA Treasury Notes 4.5% 15/5/2038 USD1000	2.56
Index Linked	1.25
UK Index Linked	1.25
National Grid Gas PLC 4.1875% Index-Linked 14/12/22	1.25
Corporate Bonds	17.48
UK Corporate Bonds	1.02
Saphir Finance PLC 6.369% Perp 25/08/2049 GBP	1.02
Overseas Corporate Bonds	16.46
European Investment Bank 5.375% Bds 15/10/2012 EUR1000	3.34
HSBC Finance Corp FRN 16/02/2011 JPY '2BR'	10.49
Sprint Capital Corp 7.625% Bds 30/01/2011 USD1000	0.95
Standard Chartered PLC 8.125% Non-Cum Red Prf USD2000	1.68
Cash	11.32

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 NOSF Global Balanced Fund is a sub-fund of the Newton Offshore Strategy Fund, an open-ended investment company operated by Newton Fund Managers C.I. Limited (NFM C.I.). Registered office for NFM C.I.: BNP House, Anley Street, St Helier, Jersey JE2 3QE, Channel Islands. Registered in Jersey No. 5769. NFM C.I. is authorised under the Collective Investment Funds (Jersey) Law 1988 and regulated by the Jersey Financial Services Commission in the conduct of fund services business. Registered office for NIM: The Bank of New York Mellon Centre, 160 Queen Victoria Street, London EC4V 4LA. Registered in England No.1371973. NIM is authorised and regulated by the Financial Services Authority.

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