



Newton Balanced Bridge Fund

Investment Report

Third Quarter 2008

30 years
1978-2008

NEWTON
The Power of Ideas

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Fund information

Long-term track record

The Newton Balanced Bridge Fund has returned 63.4% since launch (23 December 1998), which is equivalent to 5.2% per annum. This is an outperformance of 2.0% per annum compared to the fund's benchmark (WM Private Client Balanced Indicator). 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 is managed in line with the Newton Private Investment Management Income and Growth Model.

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

WM Private Client Balanced Indicator, ARC Sterling Steady Growth, IMA Balanced Managed

Risk profile

Suitable for investors with a medium risk profile.

Fund facts

Fund size (millions):	GBP 184	Ex dividend dates:	31 Jan, 31 Jul
Annual management charge:	0.8%	Pay dates:	2 business days before 31 Mar, 30 Sep
Total expense ratio:	0.84%	Last distribution:	2.5318p per unit
Base currency:	GBP	ISIN	GB0004833660
Dividend yield:	3.6%	Sedol	483366

Focus on the latest quarter

Performance over three months

Newton Balanced Bridge	-12.1%		
WM PCI Balanced	-7.4%	ARC £ Steady Growth(est)	-7.6%
		IMA Balanced Managed	-9.4%
FTSE All Share	-12.2%	FTSE W World (ex UK)	-5.3%
		FTA Govt All Stocks	4.7%

Source: Lipper, WM, ARC & Datastream, as at 30 September 2008. 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)	0.67
Royal Dutch Shell PLC	0.32
HBOS PLC (not held)	0.21
BG Group PLC	0.20
LG Telecom Ltd	0.19

Negative	%
K&S AG	-0.61
Vale	-0.47
Subsea 7 Inc	-0.42
Xstrata PLC	-0.32
StatoilHydro ASA	-0.30

Significant transactions

Aquisitions
BG Group PLC
Devon Energy Corp
Marks & Spencer PLC 6.375% EMTN 7/11/2011
Sprint Nextel Corp
Wyeth

Disposals
Treasury 5% Stk 7/03/2025
Total SA
Telefonica SA
Neste Oil Oyj
High Tech Computer Corp

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

Fund managers' report

The crisis in global financial markets developed rapidly in September from one of liquidity into one of solvency, aggravating thereby the process of deleveraging in the financial system and engulfing some of the largest financial institutions in the world. Very few asset classes have remained untouched, with questions being raised over the safety of cash and what actually is cash. The traditional safe havens of Government bonds and the US dollar have been amongst the few areas to make positive returns. There has been no remission to the downturn in markets in the early weeks of October. Indeed, the downward momentum has intensified as bank after bank in the United States, and in Europe in particular, has come under suspicion of capital inadequacy. Inter-bank lending has almost come to a halt and one of the unforeseen consequences of the enforced bankruptcy of Lehman Brothers has been the necessity to raise emergency capital to reduce

loans, to meet margin calls and to close open derivative positions which are estimated to exceed \$450 billion. Truly have these instruments acted as "weapons of mass destruction", as Warren Buffett warned.

Equity markets continue to suffer from lack of confidence in the banking system and in the ability of governments and their agents to co-operate effectively to stem the destructive tides sweeping through financial markets. The apology for the widespread selling is that a deep recession is now inevitable in the light of continuing credit and capital shortages and the consequent pressures on corporate profitability. In our view, this is but half the story. Equities are suffering most because, with government bonds, they are the only liquid asset class. Corporate bonds, private equity, hedge funds, structured products and property cannot offer any short-term liquidity. Such has been the

weight of selling that no sector and no stock has escaped unscathed. With many markets at five-year lows, we consider that much of the bad news 'is in the price', particularly given the equity dividend yield in many markets exceeds the short, and ten-year yield from bonds.

The Fund recorded a relatively poor return during the quarter, falling by 4.7% more than the WM Private Client Balanced Indicator. After a long run of consistently good performance, we were perhaps overdue a bad quarter, but it is disappointing to produce a result like this in a period of already weak equity market returns. Nevertheless, the Fund's relative performance since the first major shockwaves of the credit crisis became apparent in early 2007 remains good, and the figures we present for the latest quarter are significantly disadvantaged by the fact of being recorded at midday on 30 September, but being compared to a benchmark measured at the close of business. The UK index gained 2.2% in the last afternoon of the quarter, and a number of our stocks in the Americas fell sharply on the 29th, before rebounding on the 30th after the Fund's value had been recorded.

Performance within the equity component of the portfolios was affected adversely over the third quarter by a number of long-term, thematically driven positions. Our positions in the resources sector, specifically in the agricultural and mining companies, came under pressure from falling commodity prices and in the telecommunications sector where the strong cash flow generating characteristic was overlooked. In addition, our long term underweight exposure to financial companies and to companies in the consumer-discretionary areas did not help. This may be surprising given the turmoil in the financial sector, yet the FTSE World Financials Index was 5.8% ahead of the FTSE World Index in sterling terms over the third quarter.

We remain wary of exposure to financials. The involvement of the government in the banking system, restricting dividends and potentially using their position to direct lending towards politically sensitive areas suggests to us that banks will have much lower levels of profitability throughout the next economic cycle and hence should underperform the wider market. In addition, in the near term, the poor economic outlook and

corresponding expected increase in bad debts will depress bank earnings.

A number of the principal changes that we made during the quarter were in the Oil and Gas sector. Essentially, we are concerned about the ability of the major oil companies to replace the production that will be lost as existing fields decline. We have therefore sold some of these investments to make way for companies that have proportionally larger reserves and offer better potential for production growth. We believe that these companies will ultimately become acquisition targets for the major producers, and that they are attractively valued.

HTC, a Taiwan-based designer of internet and Windows-enabled mobile communication devices, was one of the other main sales from the portfolio. Whilst we believe that there are strong arguments for the use of "smart" phones to increase over time, we worry about the extent to which weak consumer spending will impede this trend, and competition is likely to be reasonably intense. The shares had performed well over the two years for which we held them, the valuation was not particularly compelling, and we were happy to realise the profit.

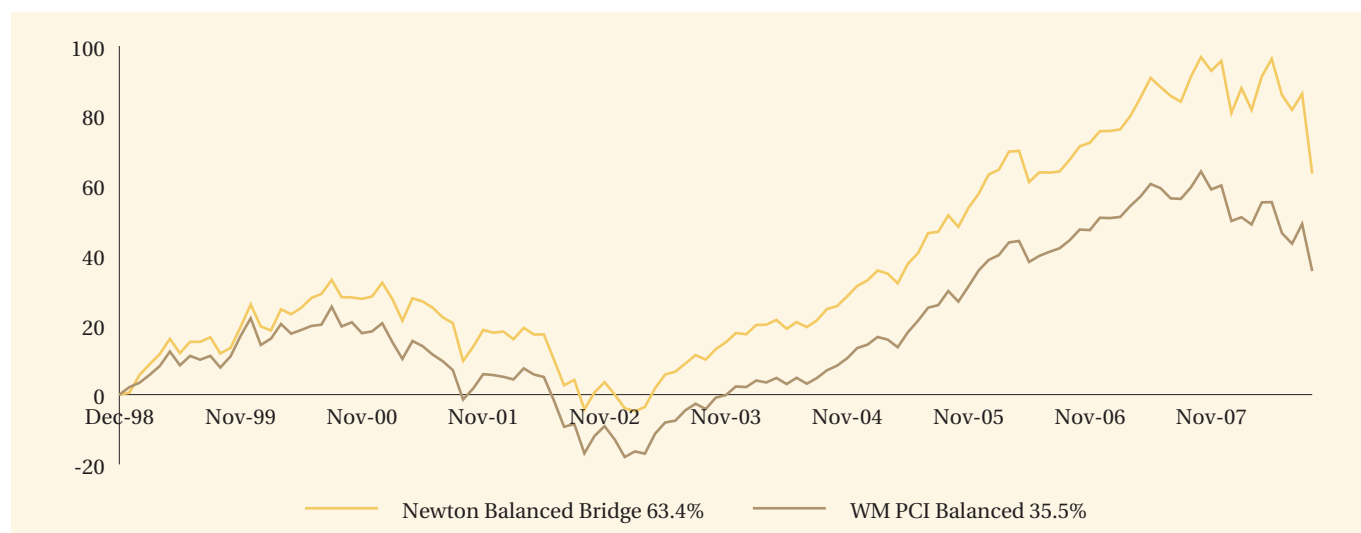
We believe that the seemingly indiscriminate selling of equities has resulted in share prices not necessarily reflecting the fundamental situation of the underlying company. Nevertheless, there are opportunities and we continue to focus on those companies which have strong balance sheets, resulting in a low (or no) reliance upon debt markets in the immediate future, stable earnings growth, healthy and resilient cash flows which can underpin high dividends and sound management. We believe that the fundamentals will reassert themselves in time, but that investors need to be patient.

Fund management team:

Caroline Lindsay and Robert Hay

Long-term performance

Cumulative performance of the fund



	1999	2000	2001	2002	2003	2004	2005	2006	2007	YTD 2008
Newton Balanced Bridge	25.1	1.8	-8.1	-15.1	17.7	11.5	20.2	11.4	11.5	-16.5
WM PCI Balanced	19.3	-3.1	-10.6	-17.5	17.5	10.8	19.6	11.1	6.1	-15.3

Discrete past performance - percentage change

From	30/09/03	30/09/04	30/09/05	30/09/06	30/09/07
To	30/09/04	30/09/05	30/09/06	30/09/07	30/09/08
Newton Balanced Bridge	13.1%	21.6%	10.5%	14.2%	-14.5%

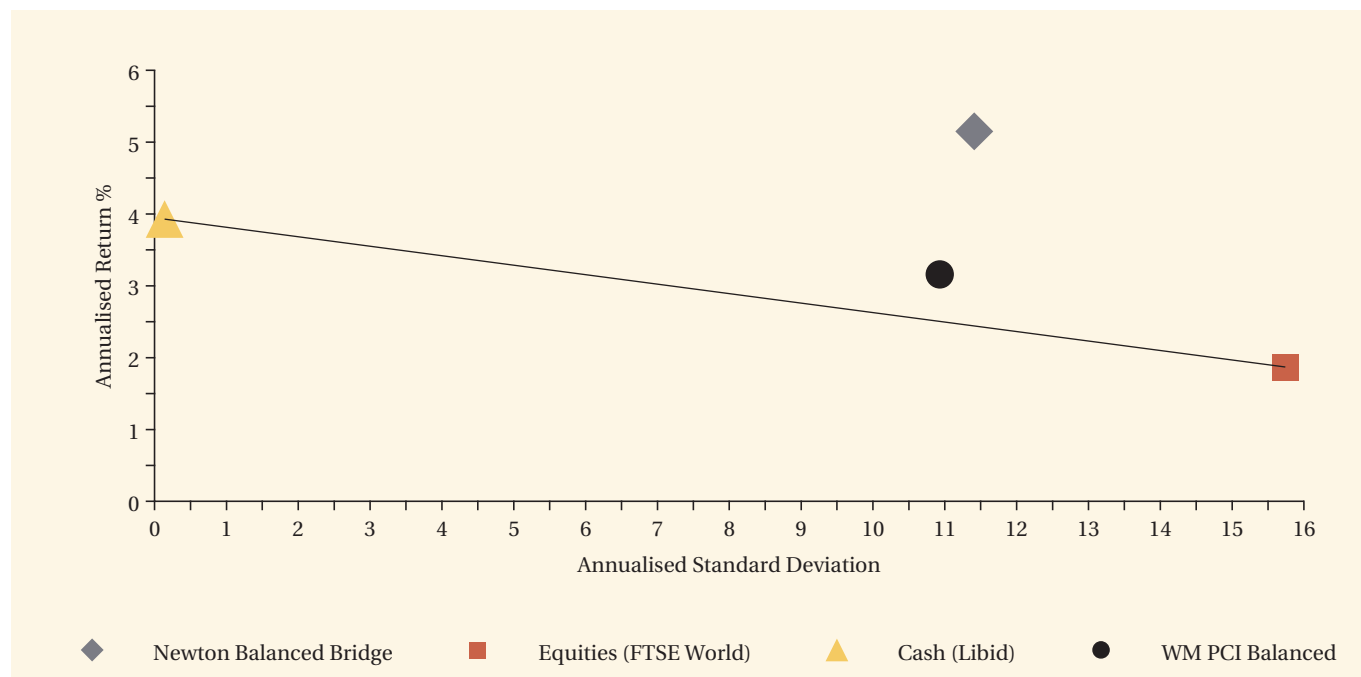
Source: Lipper, WM & Datastream, as at 30 September 2008. Calculation basis: Sterling, total return, bid to bid, without initial charges, net income reinvested, net of management fees.

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 Balanced Bridge Fund has given a higher return than cash, world equities and the WM PCI Balanced indicator whilst exhibiting similar volatility to the WM PCI Balanced Indicator. The launch date of the fund was 23 December 1998.

Risk and return since launch

	Annualised Return	Volatility	Sharpe ratio
Newton Balanced Bridge	5.2%	11.4%	0.1%
WM PCI Balanced	3.2%	10.9%	-0.1%

Source: Lipper, WM & Datastream, as at 30 September 2008. 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.

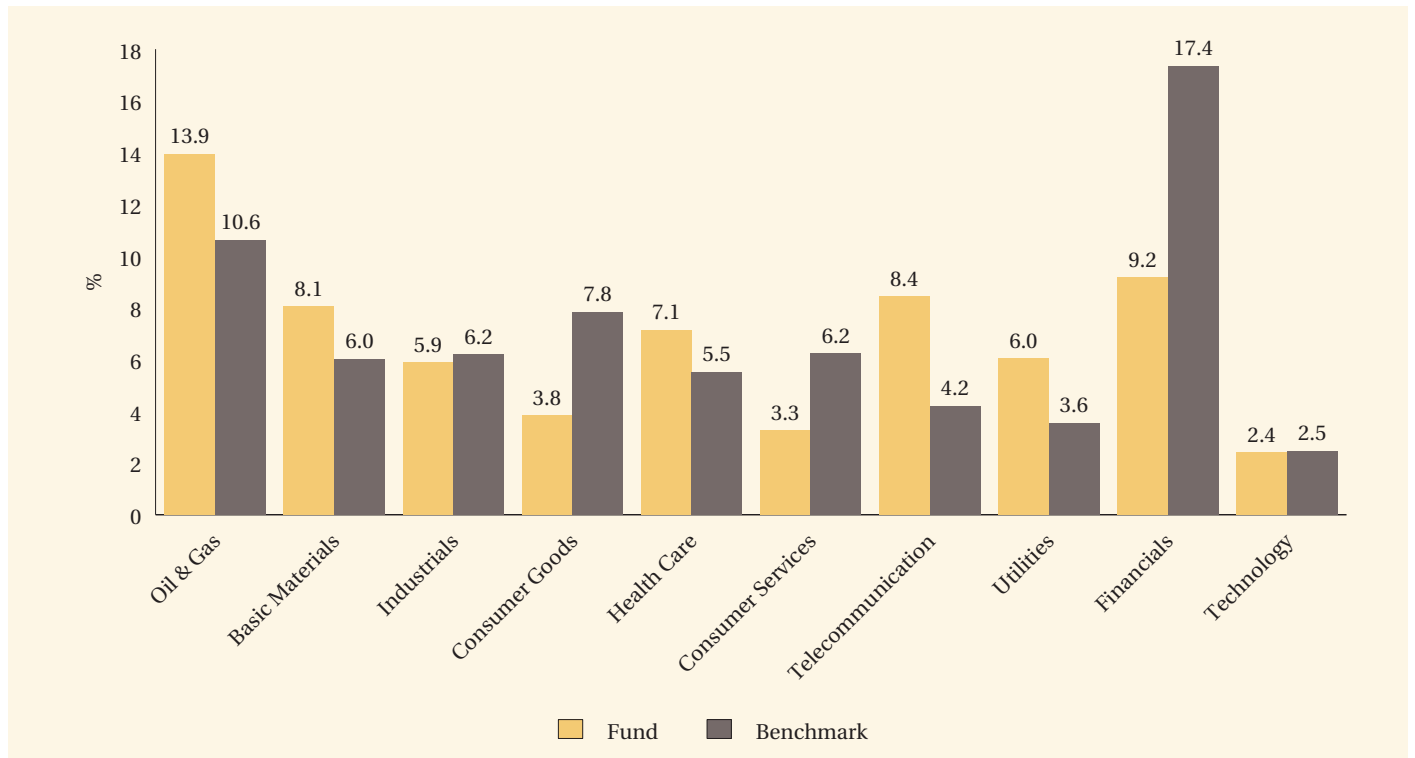
Strategy groups	Representatives from the strategy team, fund managers and research analysts identify global themes and formulate our economic view.
Research team	Global sector analysts, supported by fund managers, identify investment opportunities within the thematic backdrop.
Fund management	Fund managers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

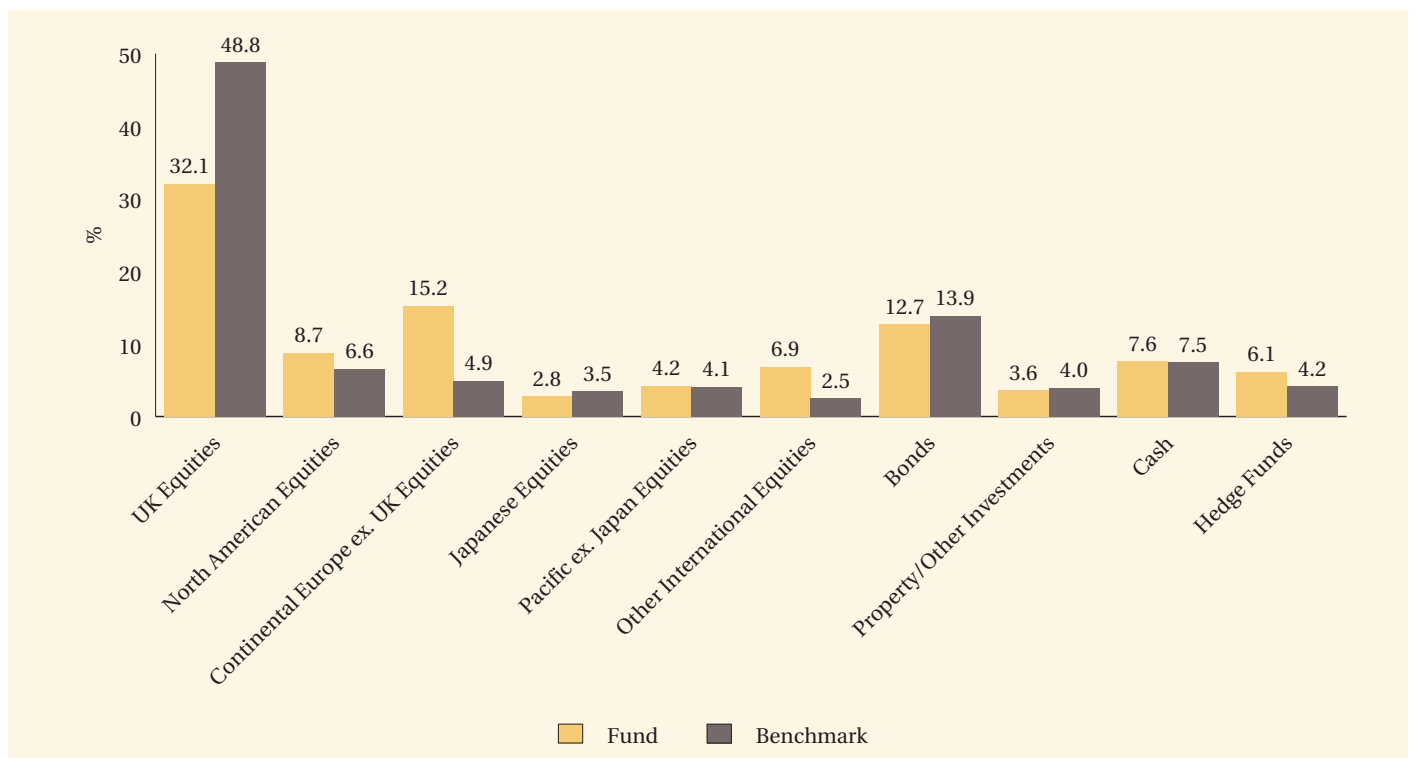
Theme	Factors	Investments
Earth Matters	Environmental issues have moved to centre stage in the minds of the public and policy makers. Current growth trends in the developing world suggest significant additional stress on resources and the environment.	Acciona, Bayer, Fortum, K&S, Makhteshim-Agan
Global Realignment	Stronger growth and increasing economic influence of the developing world is challenging the western industrialised nations' domination in terms of wealth, consumption of both natural resources and finished goods and market capitalisation of global stock markets. Some realignment over time is inevitable reflecting the developing world's accumulation of foreign exchange reserves and trade surpluses.	BHP Billiton, Copasa, DBS, Millicom, Petrobras
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.	Cisco, MTN, Tele Norte Leste, Telstra, Vodafone
Energy Supply	Following decades of underinvestment in oil and gas infrastructure, surplus production and refining capacity is limited. Strong current and forecast demand for 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, Aker Solutions, BG, Dana Petroleum, Terna Participacoes

Fund analysis

Equity weightings by industry versus benchmark



Regional and asset class weightings versus benchmark



Source for all charts: Newton, as at 30 September 2008.

Portfolio valuation

	Holding (%)
Equities	69.96
Oil & Gas	13.95
Oil & Gas Producers	12.18
BG Group PLC	1.43
BP PLC	2.22
ConocoPhillips	1.04
Dana Petroleum PLC	0.75
Devon Energy Corp	1.08
ENI SpA	0.61
Oil Search Ltd	0.87
Petroleo Brasileiro SA	1.69
Royal Dutch Shell PLC	1.46
StatoilHydro ASA	1.04
Oil Equipment	1.77
Aker Solutions ASA	0.87
Subsea 7 Inc	0.89
Basic Materials	8.06
Chemicals	3.91
Air Liquide SA	0.88
Bayer AG	1.09
K&S AG	0.94
Makhteshim-Agan Industries Ltd	1.00
Industrial Metals	1.00
Companhia Vale do Rio Doce	1.00
Mining	3.15
Anglo American PLC	0.78
BHP Billiton PLC	1.63
Xstrata PLC	0.74
Industrials	5.89
Construction & Materials	0.83
Acciona SA	0.83
Aerospace & Defence	1.13
Cobham PLC	1.13

Portfolio valuation

General Industrials	0.60
Smiths Group PLC	0.60
Industrial Transportation	0.71
Deutsche Post AG	0.71
Support Services	2.61
Bunzl PLC	1.23
Eaga PLC	0.19
Serco Group PLC	0.77
Shanks Group PLC	0.42
Consumer Goods	3.83
Beverages	0.96
Diageo PLC	0.96
Household Goods	0.53
Woong Jin Coway Co	0.53
Personal Goods	0.65
Gildan Activewear Inc	0.65
Tobacco	1.70
Japan Tobacco Inc	0.66
Reynolds American Inc	1.04
Health Care	7.15
Health Care Equipment & Services	2.13
Fresenius Medical Care AG	1.18
Smith & Nephew PLC	0.95
Pharmaceuticals & Biotechnology	5.02
GlaxoSmithKline PLC	1.74
Lilly (Eli) & Co	0.77
Novartis AG	0.77
Roche Hldgs AG	1.06
Wyeth	0.68
Consumer Services	3.27
Food & Drug Retailers	1.17
Tesco PLC	1.17
General Retailers	1.08
eBay Inc	0.53

Portfolio valuation

Inchcape PLC	0.56
Travel & Leisure	1.02
National Express Group PLC	1.02
Telecommunication	8.43
Fixed Line Telecommunications	2.54
Cable & Wireless PLC	1.02
Tele Norte Leste Participacoes	0.59
Telstra Corp Ltd	0.94
Mobile Telecommunications	5.89
LG Telecom Ltd	0.83
Millicom Intl Cellular	0.87
MTN Group Ltd	0.70
Sprint Nextel Corp	0.65
Vodafone Group PLC	2.84
Utilities	6.05
Electricity	2.55
Fortum Oyj	1.05
Scottish & Southern Energy PLC	1.50
Gas Water & Multiutilities	3.49
Centrica PLC	1.37
Cia Saneamento de Minas Gerais	0.46
E.ON AG	1.01
Terna Participacoes SA	0.65
Financials	8.53
Banks	6.48
Bangkok Bank PCL	0.80
Credit Suisse (Nassau)	0.46
DBS Group Holdings Ltd	0.61
EFG Eurobank Ergasias SA	0.54
HSBC Holdings PLC	2.32
Standard Chartered PLC	1.39
UniCredit SpA	0.35
Life Insurance	0.76
Prudential PLC	0.76
General Financial	1.29

Portfolio valuation

Deutsche Boerse AG	1.00
ICAP PLC	0.29
Technology	2.41
Software & Computer Services	1.16
Microsoft Corp	0.44
SAP AG	0.42
VeriSign Inc	0.29
Technology Hardware & Equipment	1.26
Canon Inc	0.54
Cisco Systems Inc	0.71
Unitised / Structured Investments (Equities)	2.39
UK Equity Funds	0.80
BNY MFM Ltd Newton UK Smaller Cos Cls 'X'	0.80
Japan	1.60
Capita Financial Managers Morant Wright Japan B (Acc)GBP	0.77
Elders (Merrill Lynch Intl) Japan Capital Protected II 13C	0.61
Elders (Merrill Lynch Intl) Japan Accel Growth II 25B	0.22
Bonds	12.69
Index Linked	1.28
UK Index Linked	1.28
British Telecommunications PLC 3.5% Idx Lkd 25/04/2025 GBP	0.81
Tesco PLC 3.322% Idx Lkd Nts 5/11/2025 £	0.46
Corporate Bonds	11.41
UK Corporate Bonds	10.93
Barclays Bank PLC 6% Bds 29/06/2049 GBP10000	0.87
BP Capital Markets PLC 5.125% EMTN 7/12/2008 GBP1000	0.34
BP Capital Markets PLC 5.75% EMTN 26/02/2010 GBP50000	0.85
Centrica PLC 5.875% EMTN 2/11/2012 GBP1000	1.12
Daily Mail & General Trust PLC 7.5% Bds 29/3/2013 GBP10000	0.73
Deutsche Telekom Intl Finance 6.25% EMTN 9/12/2010 GBP1000	0.81
France Telecom SA 8% EMTN 20/12/2017 GBP1000	0.29
HBOS Treasury Services PLC 6.0884% Non Cum Prf GBP1000	0.65
HBOS Treasury Services PLC 6.475% Non Cum Prf GBP1	0.37
Iron Mountain Inc 7.25% Bds 15/04/14 Reg'S'	0.22

Portfolio valuation

Kelda Group PLC 6.875% Gtd Bds 23/4/2010 GBP	0.28
Marks & Spencer PLC 6.375% EMTN 7/11/2011 GBP '83'	0.88
Saphir Finance PLC 6.369% Perp 25/08/2049 GBP	0.50
Standard Chartered PLC 8.25% Non-Cum Irr Prf GBP1	0.38
Standard Chartered PLC 7.375% Non-Cum Irr Prf GBP1	0.42
Svenska Handelsbanken AB 6.125% EMTN 4/3/2049 GBP1000	1.10
Tesco PLC 6.625% EMTN 12/10/2010 GBP	0.27
Unique Pub Finance Co PLC 5.659% Bds 30/06/2027GBP 'A4'	0.87
Overseas Corporate Bonds	0.48
Barclays Bank PLC 4.75% FRN Perp 29/3/2049 EUR	0.48
Property	0.98
Advantage Property Income Tst	0.16
INVESCO Property Income Tst	0.09
Matrix European Real Estate IT	0.13
UK Commercial Property Tst Ltd	0.60
Cash	7.59
Hedge Funds	6.13
Acencia Debt Strategies Ltd	0.99
Alternative Inv Strategies Ltd	0.63
BH Global Limited	0.65
Bluecrest Allblue Fund Ltd	0.82
Dexion Absolute Ltd	0.24
Dexion Trading Ltd	0.51
FRM Diversified Alpha Limited	0.74
Gottex Market Neutral Tst Ltd	0.43
Signet Gbl Fxd Inc Strategies	0.34
Tapestry Investment Co PCC Ltd	0.77
Unitised/Structured Investments (Other)	2.64
Other	2.64
UK	0.34
Elders (Merrill Lynch Intl) 7% Fixed Income Shs Cls 24B	0.34
Other / Non Region Specific	2.30
Merrill Lynch Intl & Co CV Call Wts (30/08/12 SX5E)	0.42
Societe Generale Acceptance NV 0% FTSE 100 Autocall 31/1/2014	0.83
Symphony Eurostoxx50 Autocall '3' N-Vtg Prf Shs £ (05/11/13)	0.55

Portfolio valuation

Symphony FTSE Absolute Return N-Vtg Prf Shs GBP 31/05/2013

0.51

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 Balanced Bridge 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 Investment Management Limited (NIM)

Telephone: 020 7163 9000

Fax: 020 7163 5063

email: privateclients@newton.co.uk

www.newton.co.uk/pim

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

1 Whitehall Riverside
Leeds LS1 4BN



BNY MELLON
ASSET MANAGEMENT