

# Newton Balanced Bridge Fund

Investment Report - First Quarter 2009

► A BNY MELLON ASSET MANAGEMENT COMPANY<sup>SM</sup>

**NEWTON**  
The Power of Ideas



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# Fund information

## Long-term track record

The Newton Balanced Bridge Fund has returned 42.3% since launch (23 December 1998), which is equivalent to 3.5% per annum. This is an outperformance of 1.6 % 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 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 (benchmark), ARC Sterling Steady Growth, IMA Balanced Managed.

## Risk profile

Suitable for investors with a medium risk profile.

## Fund facts

Fund size (millions):	GBP 172	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:	1.6606p per unit
Base currency:	GBP	ISIN	GB0004833660
Dividend yield:	4.2%	Sedol	483366

# Focus on the latest quarter

## Performance over three months

Newton Balanced Bridge	-5.2%		
WM PCI Balanced	-6.5%	ARC £ Steady Growth est.	-5.5%
		IMA Balanced Managed	-6.6%
FTSE All Share	-9.1%	FTSE W World (ex UK)	-10.7%
		FTA Govt All Stocks	-0.8%

Source: Lipper, WM, ARC & Datastream, as at 31 March 2009. Calculation basis: Sterling, total return, bid to bid, without initial charges, net income reinvested, net of management fees.

## Major contributors to relative performance

Positive	%
Sprint Nextel Corp	0.67
HSBC Holdings PLC	0.52
Petroleo Brasileiro SA	0.33
Wyeth	0.25
StatoilHydro ASA	0.23

Negative	%
Rio Tinto PLC (not held)	-0.41
Deutsche Post AG	-0.20
Novartis AG	-0.17
Smiths Group PLC	-0.16
Fresenius Medical Care AG	-0.15

## Significant transactions

Acquisitions
Treasury 4.25% Stk 7/06/2032
ETFS Physical Gold
Deutsche Telekom AG
Barrick Gold Corp
Novartis AG

Disposals
Standard Chartered PLC
Bunzl PLC
Cisco Systems Inc.
Makhteshim-Agan Industries Ltd
Anglo American PLC

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

## Fund managers' report

So far 2009 has brought little respite for equity investors still reeling from the savage declines experienced in 2008. During the first quarter, the UK market (FTSE All Share Index) fell 9.1% and the WM Private Client Balanced Indicator by 6.5%. In comparison, the Balanced Bridge fund fell by 5.2%, a relative out performance against its benchmark reference indicators.

Equity markets recovered partially during March, but not before having reached levels not tested since the mid-1990s. Markets have swung from hopelessness to hopefulness in the search for sound bite solutions to the ills of the global economy whilst policy-makers have numbed investors with innumerable acronyms and numbers: Initiatives such as TARP (Troubled Assets Relief Programme), TALF (Term Asset-backed Securities Loan Facility) and PPIP (Public-Private Investment Programme) exceed \$1 trillion.

The latest measure to assist recovery is "quantitative easing" (QE) which, after interest rates had been fixed at close to zero, was deployed to reduce the cost of debt, to increase money supply and thereby to revive spending. 'QE' alone is expected to inflate the Federal Reserve's balance sheet to \$4.2 trillion, approximately 30% of the annual GDP of the United States. Borrowing one's way out of debt seems little different from that which went before and is a heavy mortgage on the future. In the short term, however, these diverse actions have been sufficient to pluck the market from its doldrums but not enough to heal fully previous damage. Only the Far East, Emerging Markets and cash were in positive territory over the quarter, whilst Japan, Europe and North America's negative returns were accentuated by a recovery in sterling.

The fund's relative out performance during the quarter was driven primarily by some of the overseas equities held, in particular in North America and Emerging Markets, and the underweight position in financials.

Strong returns were generated by Wyeth, which received a take over approach from Pfizer, and Sprint Nextel. Sprint Nextel is the third largest US mobile phone company, by number of subscribers and was a poor performer last quarter. Our analysis showed that it was undervalued and we continued to hold the stock. During this quarter, there has been positive news flow on stemming subscriber losses and improved cash flow which has led to a turnaround in sentiment with the stock rebounding sharply, rising over 100%. We continue to favour the telecoms sector given its defensive qualities and the attractive, well-covered dividends available and, in this vein, we purchased Deutsche Telekom.

As already mentioned, the Far East and Emerging Markets outperformed during the first quarter. This was reflected in strong performances from Tele Norte Leste, Bangkok Bank, Copasa, Vale and Petrobras, the latter two being helped by recovering commodity prices.

We remain cautious on banks and have reduced the fund's exposure to the sector further via reductions of HSBC and Standard Chartered. Whilst we remain enthusiastic to the latter, on its longer term attractions and it has been picking up business in its wholesale division as its competitors falter, we recognise that it is vulnerable in the near term, given its valuation premium to the sector and the scope for greater bad debt provisioning to be required.

In fixed-interest markets, government bonds struggled to live up to their billing as a place of refuge in times of insecurity. Despite the efforts of central bankers to drive down borrowing costs (via interest-rate cuts and 'unconventional' policy measures), sovereign bonds were volatile during the first quarter, with investors' concerns about the weight of new issuance ultimately appearing to trump safe haven attributes. During the quarter we bought long dated (2027 and 2032) Gilts, in anticipation of the Bank of England adopting some form of Quantitative Easing. When this policy was

announced the gilts, included in the Bank of England's purchasing zone, duly rallied sharply.

Whilst a positive view on corporate bonds is now consensus, with many investors looking for an alternative to low yielding cash deposits, we continue to see value in selected short-dated issues as demonstrated by the purchase of the Centrica 2014. However, we sold and took profit on the National Grid 2031 bond shortly after issue having made a return of 5% and the BP Capital Markets bond which was trading on a yield of less than 2.5%.

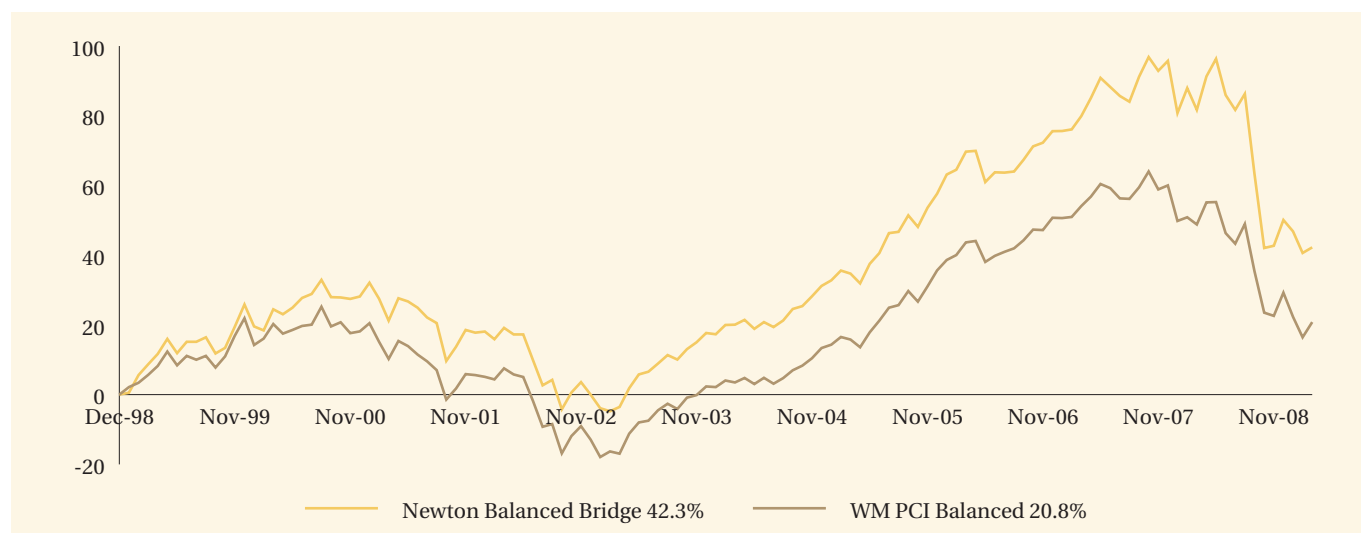
Hedge funds were perhaps due a rebound after their poor performance in the last quarter of 2008. Spurred on by proactive corporate activity such as reverse tender auctions, the discounts of many of the listed funds narrowed during the quarter, providing positive returns despite falling equity markets. This provided an opportunity to exit Dexion Absolute, Gottex Market Neutral Trust and Acencia Debt Strategies.

The portfolio has exposure to various asset classes to provide insurance against different, possibly opposing, economic outcomes: gilts should benefit in a near term deflationary environment whereas carefully selected equities and index-linked bonds should perform in an environment of growth and inflation. Gold should provide protection against inflation (and ultimately we believe that the fiscal and monetary stimuli that are being utilised across the globe will be inflationary), act as a hedge against currency debasement and as a store of value when investors are concerned about the stability of the financial system. We have approximately 4% exposure to gold through recent purchases of Barrick Gold and a physical gold Exchange Traded Fund.

The core of the portfolio continues to revolve around a core of equities, such as Vodafone, Roche and the recently purchased Nestle and British American Tobacco, which we believe are suitably resilient to the economic slowdown, and will survive, possibly thrive, in an "All Change" world. Nevertheless, given the portfolio's current positioning we are unlikely to keep pace with a sharp equity rally, particularly if it is led by the financial companies. Our cautious view on the world does not yet predicate a movement away from our defensive stance but we remain alert to the need to be nimble in these uncertain times.

# Long-term performance

## Performance since launch



	2000	2001	2002	2003	2004	2005	2006	2007	2008	YTD 2009
Newton Balanced Bridge	1.8	-8.1	-15.1	17.7	11.5	20.2	11.4	11.5	-23.3	-5.2
WM PCI Balanced	-3.1	-10.6	-17.5	17.5	10.8	19.6	11.1	6.1	-19.2	-6.5

## Discrete past performance - percentage change

From	31/03/04	31/03/05	31/03/06	31/03/07	31/03/08
To	31/03/05	31/03/06	31/03/07	31/03/08	31/03/09
Newton Balanced Bridge	12.2%	26.0%	6.0%	1.0%	-21.7%

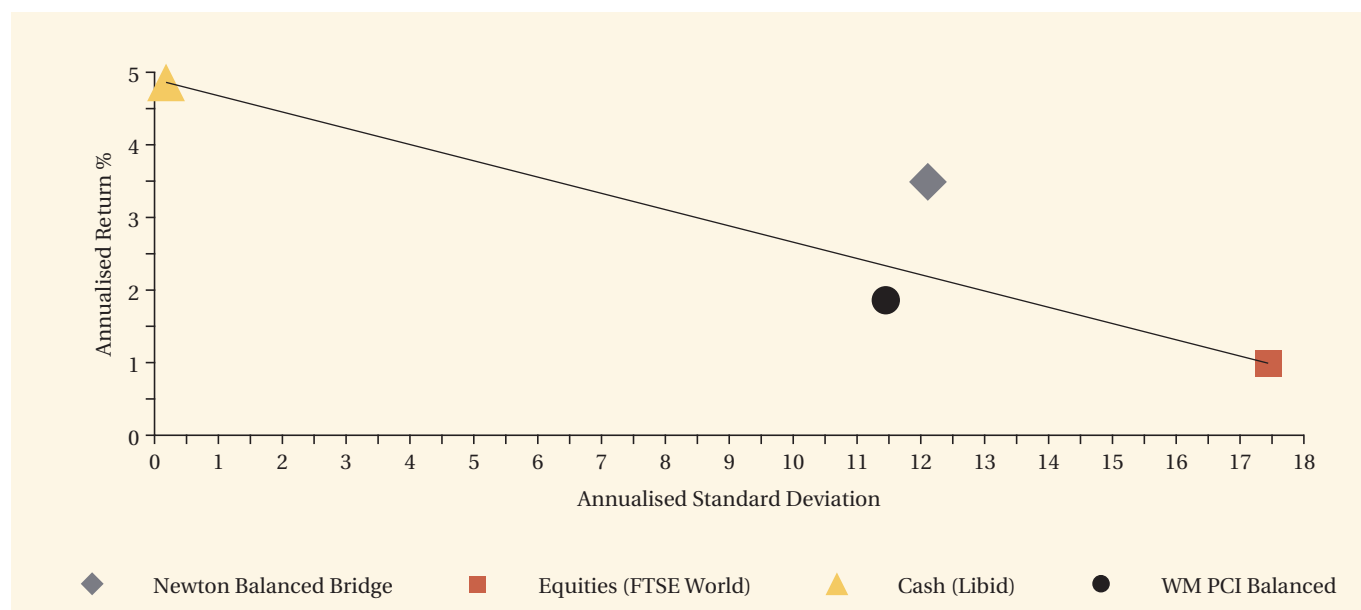
Source: Lipper, WM & Datastream, as at 31 March 2009. Calculation basis: Sterling, total return, bid to bid, without initial charges, net income reinvested, net of management fees.

## 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 world equities and the WM PCI Balanced Indicator with greater volatility than that of 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	3.5%	12.1%	-0.1%
WM PCI Balanced	1.9%	11.5%	-0.3%

Source: Lipper, WM & Datastream, as at 31 March 2009. 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.

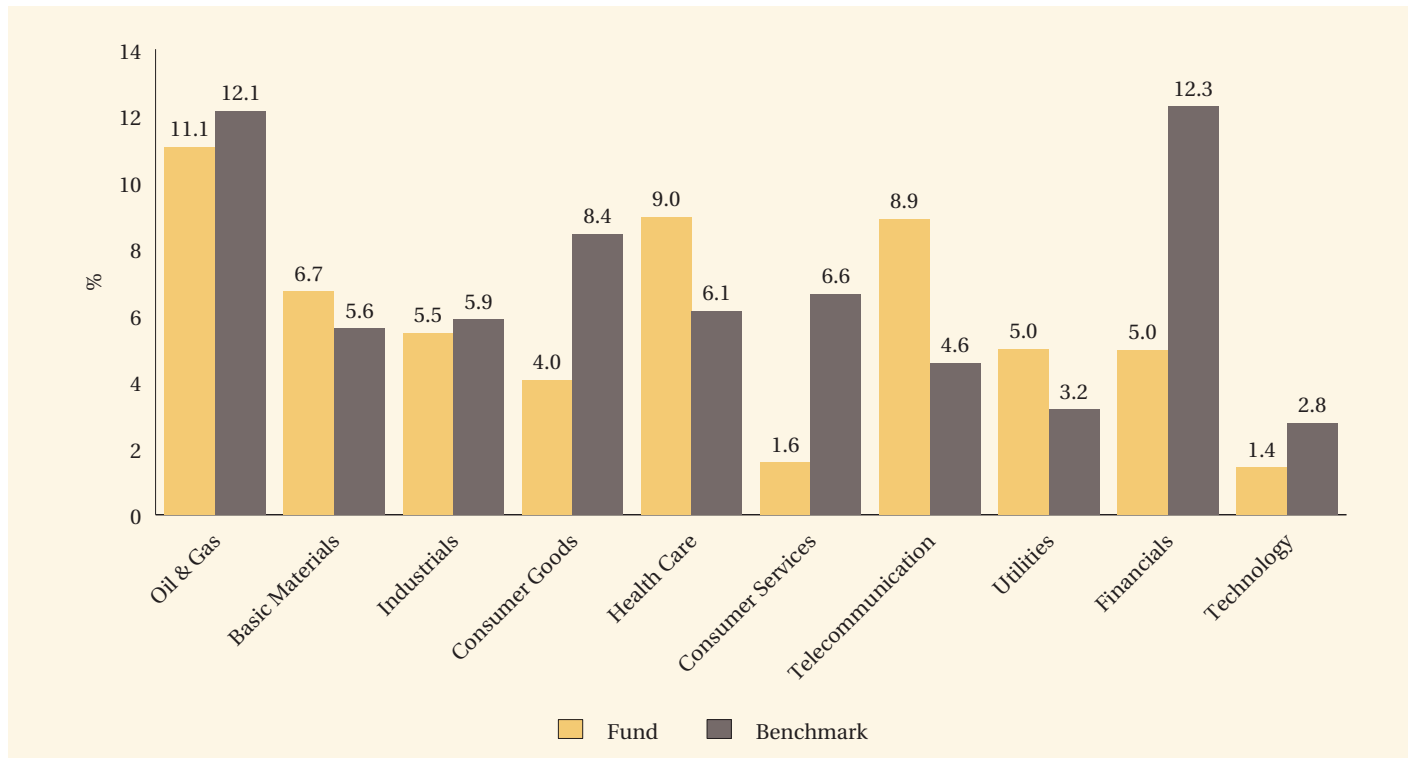
<b>Strategy groups</b>	Representatives from the strategy team, fund managers and research analysts identify global themes and formulate our economic view.
<b>Research team</b>	Global sector analysts, supported by fund managers, identify investment opportunities within the thematic backdrop.
<b>Fund management</b>	Fund managers debate with analysts the appropriate valuations for purchases and sales, then construct portfolios to match up Newton's investment thinking with client objectives and risk profile.

Several of these themes are listed below, along with examples of individual holdings.

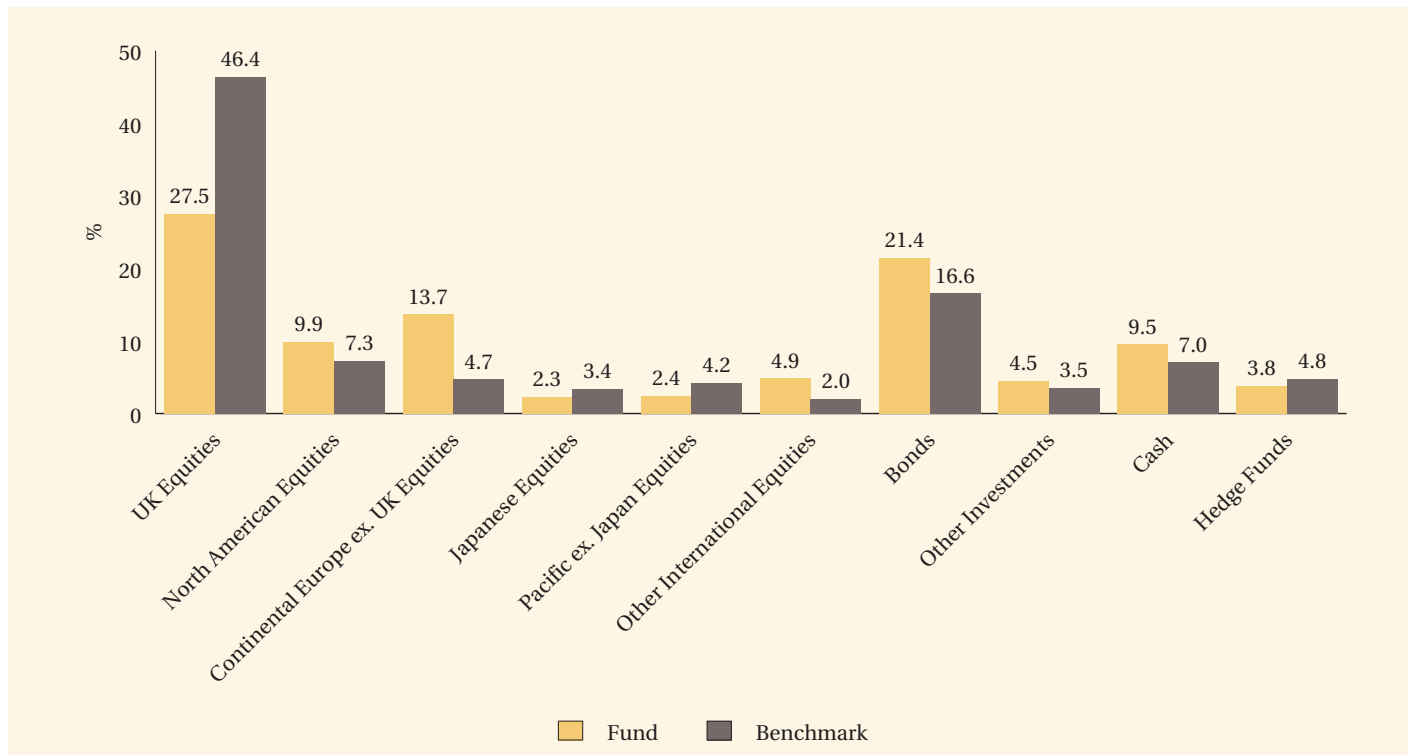
Theme	Factors	Investments
All Change	The previously benign period of stable growth, low inflation, and easy credit, which allowed private sector debt and financial leverage to grow to unsustainable levels (as described in a previous theme, "Becalmed") has come to an end. When assessing investments we assume that access to credit will remain difficult, which favours companies with limited financing requirements and argues against exposure to highly-indebted customers.	Barrick Gold, Centrica, Cobham, Microsoft, Nestle, Novartis, Reynolds American, Short dated corporate bonds
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.	Deutsche Telekom Millicom, Tele Norte Leste, Verisign, Vodafone
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.	Acciona, Dana Petroleum, Petrobras, Terna Participacoes, XTO Energy
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

# Fund analysis

## Equity weightings by industry versus benchmark



## Regional and asset class weightings versus benchmark



Source for all charts: Newton, as at 31 March 2009.

# 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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**Newton Investment Management Limited (NIM)**

Telephone: 020 7163 9000

Fax: 020 7163 5063

email: [privateclients@newton.co.uk](mailto:privateclients@newton.co.uk)

**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**

No.1 Whitehall Riverside  
Leeds LS1 4BN

