



Newton Falcon Fund

Investment Report
Fourth Quarter 2007

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Statutory Disclosure of Discrete Past Performance - Percentage Change

From	31/12/02	31/12/03	31/12/04	31/12/05	31/12/06
To	31/12/03	31/12/04	31/12/05	31/12/06	31/12/07
Newton Falcon Fund	25.9%	14.0%	24.6%	15.7%	19.0%

Source: Lipper, as at 31 December 2007, total return, bid to bid, net income reinvested, without initial charges, net of management fees. Lipper fund returns are based on midday prices.

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. Current yields are not indicative of future yields. 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.

Your Fund

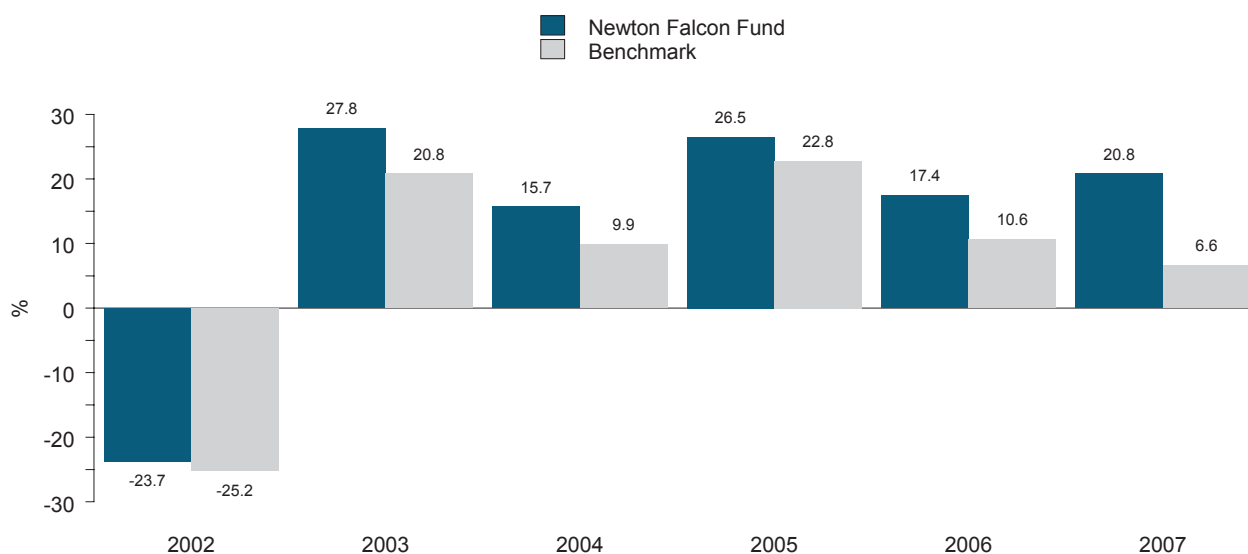
Newton Falcon Fund

Objective

The investment objective of the Scheme is to provide long-term capital growth through investment principally in UK and international equities. The Scheme may also invest in collective investment schemes, warrants, deposits, money market instruments, fixed interest securities, derivative instruments and forward transactions.

The benchmark is 50% FTSE All Share Index, 50% MSCI World ex UK Index (Sterling).

Performance



Please see Risk Factors and Discrete Past Performance on previous page.

	Latest Quarter (%)	Since Launch 13 November 1998 (%)
Fund Return (after fees)	4.9	109.3
Fund Return (before fees)	5.3	139.8
Benchmark	-0.2	62.0
FTSE All-Share	-0.3	70.7
MSCI World Ex UK	0.0	52.0

Dividend Yield: 0.7% as at 31 December 2007

| Last Dist: 1.5701p per unit as at 29 Oct 2007 (inc units only)

Fund Size (millions): GBP 60 as at 31 December 2007

| Currency: GBP

Ex Dates: 28 Feb, 31 Aug

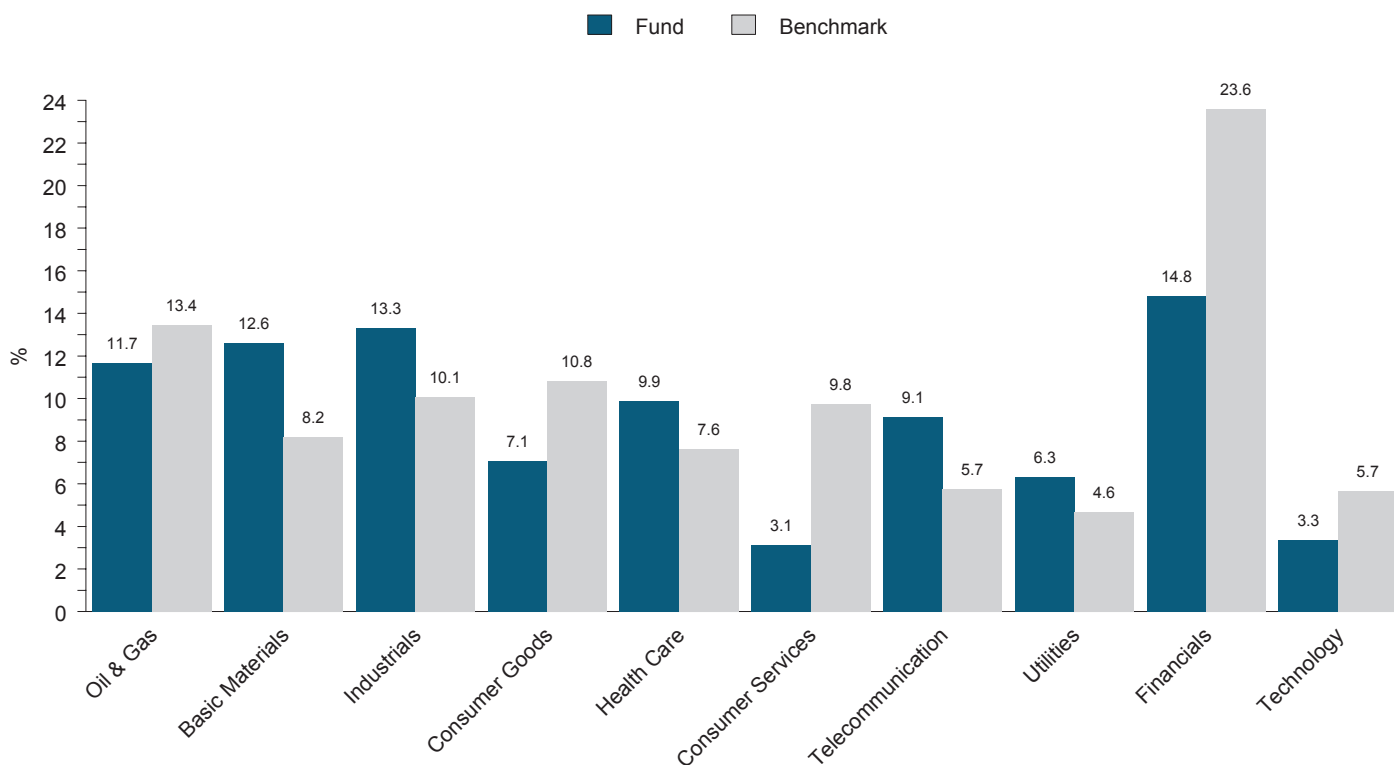
| Pay Dates: 27 Apr, 29 Oct

Source: Lipper, as at 31 December 2007, total return, bid to bid, net income reinvested, without initial charges, unless otherwise stated figures are gross of management fees. Lipper fund returns are based on midday prices, whereas the index is priced at the close of the relevant markets.

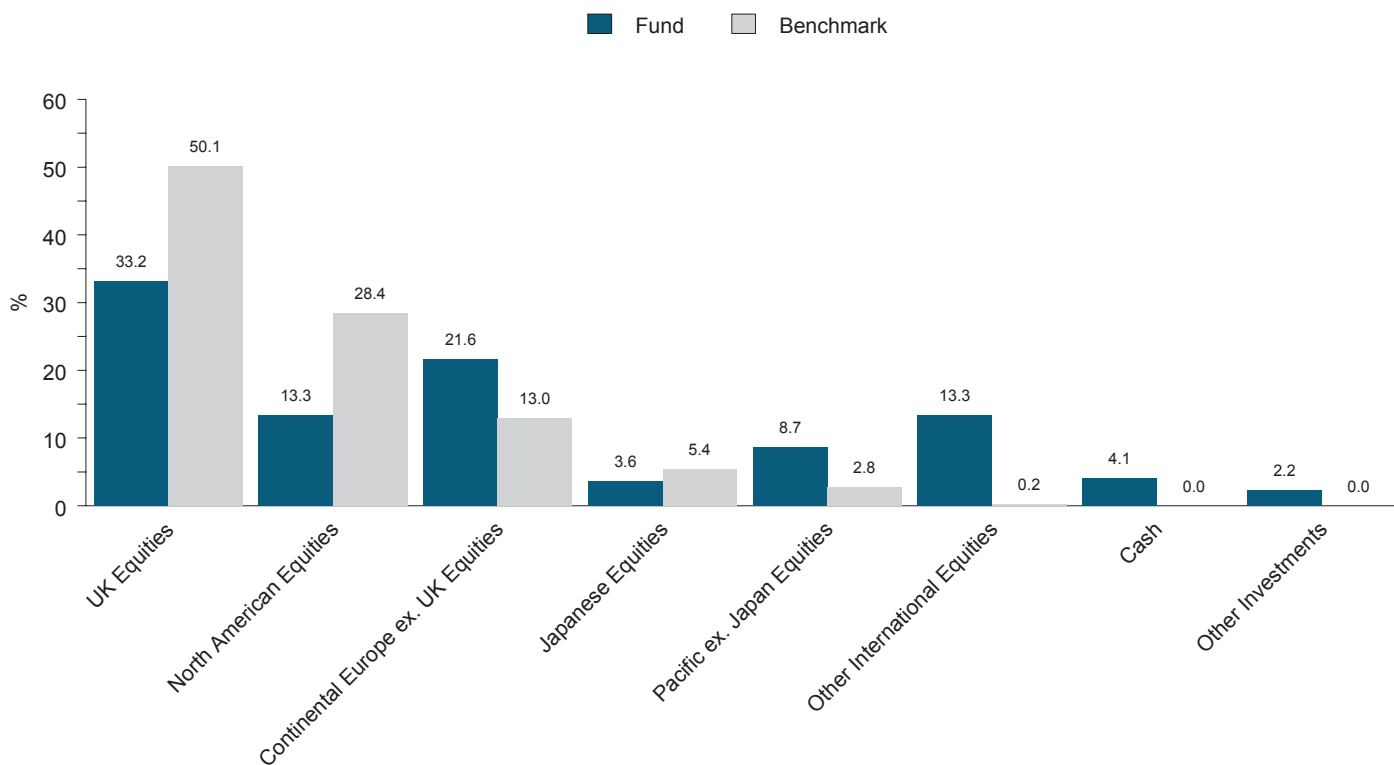
Fund Analysis

Newton Falcon Fund

Industrial Weightings versus Benchmark



Regional and Asset Class Weightings versus Benchmark



Fund Analysis

Newton Falcon Fund

Top 10 Holdings as at 31 December 2007

UK Equities	%	Overseas Equities	%
GlaxoSmithKline PLC	2.6	Millicom Intl Cellular	1.9
Standard Chartered PLC	1.8	Symrise AG	1.8
ICAP PLC	1.8	Gildan Activewear Inc	1.7
Vodafone Group PLC	1.7	K&S AG	1.7
British American Tobacco PLC	1.5	Air Liquide SA	1.6
BP PLC	1.4	Reynolds American Inc	1.6
Bunzl PLC	1.4	Aker Kvaerner ASA	1.6
Scottish & Southern Energy PLC	1.4	E.ON AG	1.5
Cobham PLC	1.2	Acciona SA	1.5
Care UK PLC	1.2	Total SA	1.4

Major Contributors to Relative Performance During the Quarter

Positive	%	Negative	%
Millicom Intl Cellular	0.66	Rio Tinto PLC (not held)	-0.28
ICAP PLC	0.56	BG Group PLC (not held)	-0.28
Deutsche Boerse AG	0.51	ABC Learning Centres Ltd	-0.23
K&S AG	0.45	Teck Cominco Ltd	-0.23
Petroleo Brasileiro SA	0.40	Aker Kvaerner ASA	-0.16

Significant Transactions

Acquisitions

Gold Fields
LG Telecom
Nexen
FTSE100 Jun 08 6325 Put Option
Ericsson

Disposals

Anadarko Petroleum
Digi.Com
Woong Jin Coway
Allianz
Beckman Coulter

Investment Themes

Newton Falcon Fund

The identification of global themes is a key component of our investment philosophy. Individual economies, industries or companies should not be analysed in isolation. Only by understanding events, trends and competitive pressures worldwide can investment prospects be properly evaluated. We have approximately a dozen investment themes, some of which have changed little over the past few years whilst others are fairly recent additions. A number of these themes are illustrated below with examples of individual holdings.

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.

Beneficiaries: Acciona, Makhteshim-Agan, GRD, K&S

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.

Beneficiaries: Bank of Ayudhya, Bursa Malaysia, Millicom, Parkway Holdings, Standard Chartered, Terna Participacoes

Debt and Credit

The transition from high to low inflation and interest rates has triggered a super-cycle of credit growth which has boosted economic activity in the West. It has extended the economic cycle and left households, corporations and administrations increasingly highly indebted. This contrasts with a developing world where households and, increasingly, corporations are significantly less indebted. In sectors such as banking (among others), we favour companies with exposure to the developing world.

Beneficiaries: Bangkok Bank, DBS Group, EFG Eurobank, Standard Chartered, Unicredito Italiano

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.

Beneficiaries: Aker Kvaerner, BP, ConocoPhillips, Subsea 7, Total

Fund Manager's Report

Newton Falcon Fund

Confidence in world equity markets remained fragile during the final three months of 2007. Amongst the factors that worried investors were persistent liquidity problems in credit and money markets, upward revisions to estimates of subprime and other credit-related losses sustained by investment banks, evidence of worsening economic conditions in the US including weak housing market data, and inflation in food and oil prices. Of more comfort were the efforts undertaken by central banks to alleviate liquidity problems within the banking system, the willingness of sovereign wealth funds from Asia and the Middle East to buy stakes in ailing US investment banks, and the resilience of emerging market equities.

Your Fund was well-placed to weather these difficult conditions. Outperformance of 5% for the final quarter capped a particularly good year. The total return of 19% after fees for 2007 compared very favourably with the benchmark return of 6.6%.

Review of portfolio activity in 2007

In attempting to summarise the actions we have taken both prior to the credit crisis, and after it became apparent, it is necessary to identify some of the defining features of the financial conditions that prevailed until recently: namely the easy availability of low cost debt, rising asset prices, and historically low levels of volatility in asset markets. There has been something of a circular effect here, as cheap credit and low volatility have contributed to rising asset prices, which themselves have encouraged the accumulation of debt. Some of the asset classes that performed particularly well in these conditions included private equity, property and equities, and within the equity market major beneficiaries have included the real estate, house building, utility, infrastructure, and investment banking sectors.

For a number of years we have been wary of exposure to a developed world consumer whose capacity to take on additional debt and increase spending we thought to be limited. This explains the low representation in the Fund of UK and US companies in the bank, retail, media, and leisure sectors, for example. The longer the easy credit conditions prevailed, the more we became sufficiently concerned to sell investments in

companies that had benefited to a large degree from these conditions. Thus we further reduced the Fund's bank investments by selling UBS, worried by their costly attempts at an advanced stage in the cycle to build a fixed income business that had not previously been an area of great expertise for them. More recently, we sold Minerva, the Fund's only direct exposure to UK commercial property, and also Punch Taverns. Punch's share price had been bid up a long way on the assumption that a private equity buyer could extract capital from the business by using a high degree of borrowing secured on the property contained within the pub estate. All three shares have fallen sharply during the credit crisis, Minerva by some 65%.

It follows that when looking for shares to purchase, we have often chosen companies that have missed out on the credit bonanza, or have been ignored for other reasons during the recent bull market. Such companies include those in sectors that have not attracted the attention of private equity buyers, and recent purchases within the pharmaceutical and telecom sectors fit into this category. GlaxoSmithKline is now the biggest individual holding within the Fund by a clear margin. Within telecoms we were able to purchase LG Telecom, a mobile operator in South Korea, on an expected dividend yield of over 6.3%, and a price to earnings multiple of a similar magnitude. We believe that this valuation will appear even less demanding once the current level of marketing spending is brought back to normal levels.

Various other purchases made during the latest quarter and during the year were of shares that we believe can perform relatively well in a more stringent credit environment, either by dint of the nature of the company's business, or because the valuation is particularly undemanding as a result of the shares being out of favour with investors. These purchases include Symrise, a supplier of flavours and fragrances; Ericsson, a manufacturer of telecommunication network equipment; the Symphony Defensive Autocall structured product; Tele Norte Leste, a Brazilian telecom operator; K&S and Makteshim-Agan, both of which are intended to benefit from increased demand for agricultural produce; and GRD, a provider of waste processing solutions.

Fund Manager's Report

Newton Falcon Fund

Review of performance in 2007

At the industrial sector level, Financials were the most significant contributors to performance by a large margin during 2007, accounting for almost 7% of relative performance by our estimates. The largest component of this result can be attributed to our strategy for the Banks sector: the Fund was significantly underweight a poorly performing sector, and held shares in banks that outperformed the index. The decision to own neither Royal Bank of Scotland nor HBOS alone added 1% to performance. Once again, the exchange investments (Deutsche Boerse, Bursa Malaysia, and ICAP) generated strong returns, and contributed approximately 2.5% to relative performance.

Consumer-related sectors were another source of outperformance, helped by the absence of investments in UK Housebuilders, and limited exposure to the Retail, Media and Travel and Leisure sectors. The biggest consumer-related contribution, however, was provided by Gildan Activewear, a purchase made for purely company-specific reasons. A manufacturer and distributor of T-shirts and sportswear, the company has continued to take market share from the likes of Haines and Fruit of the Loom in its core wholesale business, and its foray into selected retail markets, in which it faces the same competitors, has started well.

A significant number of the Fund's best-performing stocks in 2007 had also featured prominently in the previous two years. This is true of the financial stocks mentioned above, and also of Millicom, the emerging market telecom operator, and Acciona, a Spanish conglomerate that has built a major wind farm business. A number of purchases made during 2007 also contributed strongly, however. Makhteshim-Agan and K&S, the agricultural product companies about which we wrote last quarter, have already performed well enough to contribute a combined 0.9% to relative performance. The three new additions in the Utility sector, two in Brazil and EON of Germany, also provided good returns.

Volatility within equity markets has risen as investors have begun to reappraise risk and the near term economic outlook. The extent of the impact on the real economy of a tighter credit environment remains unclear and we expect that market conditions will continue to be tough. We anticipate that for the time being most new purchases will be of shares that we deem defensive. Nevertheless, we are conscious that we need to keep an eye on the valuations of more cyclical companies that are being marked down severely in the current turmoil.

Robert Hay • Ross Ciesla

Investment Style and Other Information

Newton Falcon Fund

There are three components of the investment process at Newton: the strategic framework, global research, and portfolio management. The basis of our investment philosophy is that no industry, market or economy can be considered in isolation. Only by understanding events, trends and competitive pressures worldwide can prospects for shares and bonds be properly evaluated. We conduct our research and invest globally.

The Falcon fund is a high risk fund that is designed to achieve long-term capital growth in sterling terms, offering the potential for higher returns over the long term than the majority of our private client funds and portfolios. For the majority of the time it is anticipated that the fund will be fully or almost fully invested in equities. We are permitted to invest in less volatile assets on a temporary basis if we believe that market conditions merit such an approach, but in spite of this the fund should always be considered high risk.

The fund may take larger positions in individual stocks and sectors than our other private client funds, and investment performance may deviate significantly from the benchmark. The benchmark has a bias towards equities quoted in the UK, and this will be reflected to an extent in the fund's composition, but there are no formal limits on how much or how little of the fund can be invested in any particular geographic region or industrial sector. The fund is nevertheless designed for sterling investors and hedging of overseas currency exposure may be implemented when we deem appropriate.

The frequency of trading within the fund is also likely to be higher than in our more typical private client funds. The fund is expected to hold between 70 and 90 securities.

Portfolio Valuation

Newton Falcon Fund

	% WEIGHT
Newton Falcon Fund	100.00
Equities	92.74
Oil & Gas	11.66
Oil & Gas Producers	8.75
Anadarko Petroleum Corp	0.17
BP PLC	1.40
ConocoPhillips	1.25
Nexen Inc	1.13
Oil Search Ltd	1.07
Petroleo Brasileiro SA	0.98
StatoilHydro ASA	1.32
Total SA	1.43
Oil Equipment	2.91
Aker Kvaerner ASA	1.56
Subsea 7 Inc	1.34
Basic Materials	12.61
Chemicals	6.14
Air Liquide SA	1.63
K&S AG	1.65
Makhteshim-Agan Industries Ltd	1.04
Symrise AG	1.82
Industrial Metals	2.15
Companhia Vale do Rio Doce	1.28
Teck Cominco Ltd	0.87
Mining	4.32
Anglo American PLC	1.02
BHP Billiton PLC	1.10
Gold Fields Ltd	1.09
GRD Ltd	1.10
Industrials	13.30
Construction & Materials	1.49
Acciona SA	1.49
Aerospace & Defence	2.23
BAE Systems PLC	0.99
Cobham PLC	1.24
General Industrials	0.83

Portfolio Valuation

Newton Falcon Fund

	% WEIGHT
Smiths Group PLC	0.83
Industrial Transportation	3.28
Canadian Pacific Railway Ltd	0.97
Deutsche Post AG	1.32
Panalpina Welttransport AG	0.99
Support Services	5.47
ABC Learning Centres Ltd	0.97
Bunzl PLC	1.37
Eaga PLC	0.25
Intertek Group PLC	1.20
Serco Group PLC	0.91
Shanks Group PLC	0.77
Consumer Goods	7.06
Beverages	1.17
Diageo PLC	1.17
Personal Goods	1.70
Gildan Activewear Inc	1.70
Tobacco	4.20
British American Tobacco PLC	1.47
Japan Tobacco Inc	1.12
Reynolds American Inc	1.61
Health Care	9.87
Health Care Equipment & Services	3.88
Care UK PLC	1.22
Medtronic Inc	0.83
Parkway Holdings Ltd	0.87
Smith & Nephew PLC	0.96
Pharmaceuticals & Biotechnology	5.99
GlaxoSmithKline PLC	2.61
Lilly (Eli) & Co	0.89
Novartis AG	1.29
Wyeth	1.20
Consumer Services	3.13
General Retailers	0.91
Inchcape PLC	0.91
Media	1.11
Reuters Group PLC	1.11

Portfolio Valuation

Newton Falcon Fund

	% WEIGHT
Travel & Leisure	1.10
Go-Ahead Group PLC	1.10
Telecommunication	9.11
Fixed Line Telecommunications	1.94
Cable & Wireless PLC	0.96
Tele Norte Leste Participacoes	0.98
Mobile Telecommunications	7.17
Advanced Info Service PCL	1.29
LG Telecom Ltd	1.23
Millicom Intl Cellular	1.88
Taiwan Mobile Co	1.05
Vodafone Group PLC	1.73
Utilities	6.33
Electricity	2.49
First Gen Corp	1.13
Scottish & Southern Energy PLC	1.36
Gas Water & Multiutilities	3.84
Cia Saneamento de Minas Gerais	1.02
E.ON AG	1.51
Terna Participacoes SA	1.31
Financials	14.81
Banks	7.34
Bangkok Bank PCL	0.92
Bank of Ayudhya PCL	0.85
DBS Group Holdings Ltd	1.13
EFG Eurobank Ergasias SA	0.75
HSBC Holdings PLC	0.90
Standard Chartered PLC	1.84
Unicredito Italiano SpA	0.96
Life Insurance	1.99
Old Mutual PLC	0.96
Prudential PLC	1.03
Real Estate	1.56
Deutsche Wohnen AG	0.26
IRSA Inversiones Y Representca	0.63
Japan Real Estate Inv Co	0.47
Mapletree Logistics Trust	0.19

Portfolio Valuation

Newton Falcon Fund

	% WEIGHT
General Financial	3.92
Bursa Malaysia Berhad	0.82
Deutsche Boerse AG	1.33
ICAP PLC	1.77
Technology	3.35
Technology Hardware & Equipment	3.35
Canon Inc	0.46
Cisco Systems Inc	0.85
Ericsson (LM) (Telefon)	0.98
High Tech Computer Corp	1.06
Unitised / Structured Investments (Equities)	1.53
Japan	1.53
Capita Financial Managers Morant Wright Japan B (Acc)GBP	1.01
Elders (Merrill Lynch Intl) Japan Accel Growth II 25B	0.52
Cash	4.01
Derivative Instruments	1.02
Options	1.02
FTSE 100 Index Jun 08 UKX 6325 PBT (Put Option)	1.02
Unitised/Structured Investments (Other)	2.24
Other	2.24
Other / Non Region Specific	2.24
Merrill Lynch Intl & Co CV Call Wts (30/08/12 SX5E)	0.94
Symphony Defensive Eurostoxx50 Autocall 4 N-Vtg Pf £ (27/9/13)	1.30

Risk Factors

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