



Newton Phoenix Fund

Investment Report
Fourth Quarter 2007

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Discrete Past Performance – Percentage Change

	31/12/06 – 31/12/07	31/12/05 – 31/12/06	31/12/04 – 31/12/05	31/12/03 – 31/12/04	31/12/02 – 31/12/03
Phoenix Fund*	5.2%*	7.1%*	15.0%	10.5%	10.3%^

^ Performance prior to 11 April 2003 reflects the performance of the Phoenix Fund's holdings prior to restyle

* On 14 March 2006, a 'B' Share Class was created. The performance we record after 31 March 2006 is that of the 'B' Share Class. Prior to this date, we record the performance of the 'A' Share Class.

Source of performance information: Lipper as at 31 December 2007, total return, net of fees, without initial charges, income reinvested net of tax. Figures are based on sterling returns.

Risk Factors

This is a financial promotion and is not intended as investment advice.

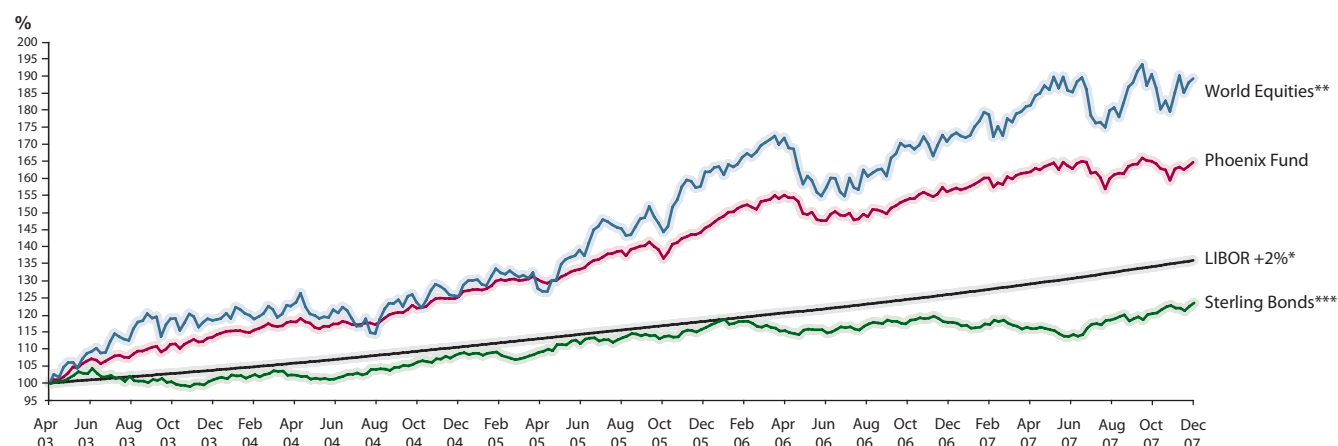
Past performance is not necessarily a guide to future returns. The value of investments and the income from them can fall as well as rise and investors may not get back the original amount invested. The value of overseas securities will be influenced by fluctuations in exchange rates. Current yields are not indicative of future yields. Part of the Fund may be invested in sub-investment grade bonds that typically have a low credit rating and carry a high degree of default risk, which can affect the capital value of your investment. As the Fund has exposure to hedge funds, gold, private equity and property via publicly quoted transferable securities, there are additional risks associated with these sectors.

Aim and performance

Aim

The Phoenix Fund's aim is to achieve long-term growth in excess of cash returns from a balanced portfolio diversified across a range of assets. The benchmark is cash +2% per annum. The Fund is intended to have significantly lower absolute volatility^g than traditional equity biased funds, but will exhibit volatility relative to its benchmark. The Phoenix Fund was restyled in April 2003 to pursue a 'diversified assets' approach.

Performance data for the period prior to 11 April 2003 should not be seen as indicative of future performance. Performance since restyle is shown below.



Performance

Figures since restyle (11 April 2003)

	Latest Quarter	Return	Annualised Volatility ^g	Sharpe ratio ^g	Positive Weeks ^g	Largest loss ^g
Phoenix Fund (after fees):	0.4%	64.6%	5.1%	1.3	67%	-6.1%
Benchmark*:	2.1%	37.0%				
For comparison purposes						
World Equities**	0.4%	89.1%	11.8%	0.8	57%	-12.3%
Sterling Bonds***	4.4%	23.6%	4.2%	0.0	57%	-5.3%

* Benchmark is 1 month LIBOR +2%^g per annum

** FTSE World (Total Return Index) – price at close

*** FTA Government All Stocks (Total Return Index) – price at close

^g See Glossary

Please see Risk factors and Discrete Past Performance on previous page

Dividend Yield: 1.8% at 31 December 2007 | Last distribution: 1.2663p per unit on 21 September 2007

Fund Size: £115.6m at 31 December 2007 | Currency: GBP

Source of performance information: Lipper as at 31 December 2007, total return, net of fees, without initial charges, income reinvested net of tax. Figures are based on sterling returns.

Source of analysis of volatility of return: Newton.

Comparative performance

Comparative performance – 11 April 2003 to 31 December 2007 (weekly, total return in £)

	Return	Annualised Volatility	Positive Weeks ⁶	Largest Loss
World Equities (FTSE World)	89.1%	11.8%	57%	-10.2%
UK Equities (FTSE All Share)	109.5%	11.0%	61%	-9.2%
UK Gilts (FTA Govt. All Stocks)	23.6%	4.2%	57%	-5.0%
Sub Investment Grade Bonds ⁶ (Merrill Lynch Euro High Yield constrained) (E)	52.1%	3.9%	72%	-6.5%
Index Linked Gilts ⁶ (FTA Govt. Index Linked)	36.6%	5.3%	55%	-4.9%
Commodities (GSCI-TOT)	99.2%	22.2%	56%	-20.8%
Private Equity ⁶ (Datastream Investment Trusts – Private Equity ex 3i)	120.8%	9.2%	65%	-10.4%
UK Property (Datastream Investment Trusts – Property)	74.8%	9.2%	64%	-27.4%

Comparative performance – 30 April 2003 to 30 November 2007 (monthly, total return in £)

	Return	Annualised Volatility
Phoenix Fund	62.6%	4.4%
UK Property (Investment Property Databank)	88.2%	3.6%
Funds of Hedge Funds (HFRI Index)	46.6%	8.1%
Average Unit Trust	69.8%	14.9%
UK Inflation	13.8%	–

Phoenix monthly performance (since April 11 2003)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2003	–	–	–	1.60%	3.98%	0.86%	1.70%	0.90%	-0.08%	1.86%	0.81%	2.44%	14.92%
2004	-0.06%	1.44%	0.69%	0.39%	-1.03%	1.43%	-0.55%	1.23%	1.85%	0.96%	1.68%	2.04%	10.49%
2005	0.47%	2.02%	0.16%	-0.94%	1.19%	2.91%	2.45%	0.76%	1.77%	-1.51%	2.57%	2.36%	15.10%
2006	3.07%	1.11%	0.96%	0.31%	-3.38%	0.29%	0.40%	0.23%	0.54%	1.69%	0.55%	1.24%	7.11%
2007	0.60%	0.21%	1.25%	1.39%	1.40%	-0.91%	-0.42%	-0.71%	1.91%	0.81%	-1.61%	1.23%	5.20%

This table shows the performance of the Phoenix Fund Income 'A' Units from 11/04/03 to 31/03/06, then the 'B' Units

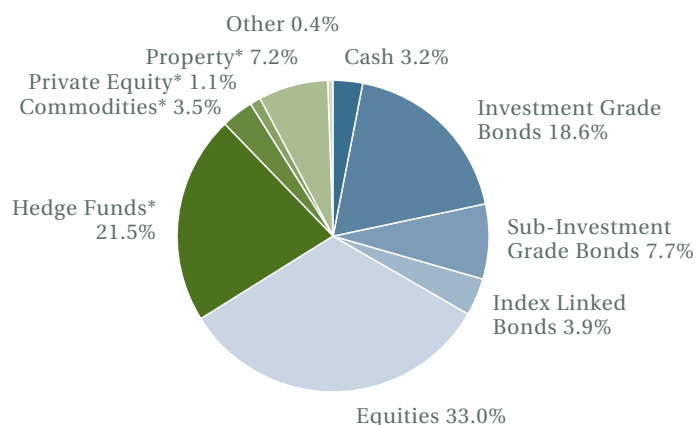
Please see Risk factors and Discrete Past Performance on page 1

Source: Newton as at 31 December 2007.

⁶ See Glossary

Fund analysis

Asset class exposure



*Via publicly quoted transferable securities

Currency exposure

Sterling	78.7%
US Dollar	7.9%
Euro	5.4%
Yen	0.9%
Swiss Franc	1.7%
Other (Far East etc)	5.4%

Largest holdings and method of investment

Asset class	Method of investment	Currency hedging ⁶ of non-sterling instruments	Number of holdings	Largest holdings as at 31 December 2007	
Investment Grade Bonds	Direct	Yes	20	Dexia Bank Belgium CD	2.2%
				Nationwide BS CD	2.0%
Sub-Investment Grade Bonds	Direct & Fund & Structured Products	Yes	8	Elders (Merrill Lynch) 9% High Yield Shares	0.9%
			1	Merrill Lynch Autocall 2012	0.8%
			9		
Index Linked Bonds	Direct	n/a	3	USA Treasury IL 2012	2.2%
				Treasury 2.5% IL 2011	1.2%
Equities	Direct, Funds & Structured Products	No	69	Vodafone	1.0%
			2	BP	1.0%
			5	Standard Chartered	0.9%
				0.9%	Millicom
				0.8%	Symphony FTSE Absolute Return
Hedge Funds	Funds of Funds	Yes	16 (100+ hedge funds)	FRM Credit Alpha	3.1%
				Tapestry Investments	2.5%
				Close Allblue Fund	2.3%
	Hedge Funds			2	Acencia Debt Strategies
Commodities	Structured Products & ETF & Fund	No	3	Gold Bullion	1.2%
			1	Harewood BNP Energy Base Metals II	0.6%
			1		
Private Equity	Investment Trusts	n/a	4	F & C Private Equity	0.5%
				Bear Stearns Private Equity	0.3%
Property	Investment Trusts & PICs	No	13	Invista Foundation Property Trust	0.9%
					2

Source: Newton as at 31 December 2007. Figures are subject to rounding differences.

⁶ See Glossary

Fund manager's report

The Phoenix Fund rose in October and December, but suffered a fall in November to produce a return of 0.4% in the fourth quarter. The return for the year was 5.2%, which is below our targeted return of cash +2%. We measure the return of cash with reference to the interbank market (LIBOR), which ended the year at a significant premium to the UK base rate of 5.5%.

The main financial event in the year was the onset of the credit crisis in the summer, one outcome of which was a run on Northern Rock. Despite independent action from central banks over the summer, credit markets remained nervous and we witnessed another spike in the interbank rates in November. This suggests the problem will remain a feature for some time. Interest rates had been rising since mid 2006 but this trend was reversed after the summer of 2007. In the final quarter of 2007, central bank interest rates were cut in the UK and US. Sterling was weak against most currencies during the second half of 2007.

Gilts continued to perform very well in the final quarter (reflecting investors' appetite for assets perceived as completely safe) to give a return for the year below cash. However, we still struggle to see attractive valuations in UK gilts unless interest rates are cut significantly to counter economic weakness. We have commented in previous reports on our aversion to credit risk and this portion of the fund is slanted to higher grade corporate bonds with less than 10 years to maturity. The certificates of deposit bought in early 2007 will mature in the next few months having given a healthy return.

Sub investment grade bonds, as an asset class, performed very poorly and over the year they had a negative return. Our strategy of investing in autocall structured products, driven by our previously commented upon aversion to credit risk, has worked extremely well.

Index linked bonds continued their strong run which started in the summer, although there was a marked pull back in December. We have increased exposure to this area with the purchase of US treasury inflation protected bonds and then hedged the currency. This decision reflects our view that UK index linked gilts look expensive when compared to their US counterparts.

Equity markets continued the trend of higher volatility which began six months ago and registered single digit returns for 2007. However, good stock selection, guided by our global thematic research, has allowed the equity portion of the fund to return significantly more than indices.

Commodity prices were strong in the final quarter of 2007 with notable strength for energy, precious metals and agricultural commodities. These all ended the year

significantly ahead. In contrast, industrial metals fell over the year and suffered much of this fall in the final quarter. Within the fund, we have purchased more gold and units in an actively managed agricultural commodities trading fund.

Hedge funds enjoyed positive returns in September and October but a negative return in November and are expected to have outperformed equities in 2007 (the first time since 2002). Given our expectation that equity market volatility is likely to continue and the dispersion of returns between outperforming and underperforming equities is likely to stay high, hedge funds represent our most overweight asset. This is despite the disadvantages of layers of high fees, poor liquidity in some cases and a continuing high probability that some hedge funds will go bust. The financial impact of this last risk is curtailed by our very diversified approach of using funds of hedge funds.

Property had a very weak final quarter adding to the cumulative loss of the previous nine months. There were further significant falls in property shares and investment trusts as well as weakness in physical property. Although we are now at our minimum weighting in this asset, only part of this reduction was through active sales with the rest due to the falling prices of our investments. Exposure to the UK property market is now approximately two thirds of our overall property weighting. We have spent a considerable amount of time in 2007 writing to and meeting directors of the property investment trusts to urge action to boost shareholder value. Property investment trust shares now stand at significant discounts to the underlying value of the properties they own.

Looking at 2007 overall, the return was below cash and therefore disappointing. However, was it an acceptable return in the context of investment markets? UK equities and gilts gave much the same return as the Phoenix Fund while lower grade bonds and property fell in value. Commodities and hedge funds were the best performing assets in 2007 and we have been positive in these areas for some time. Our conclusion is that 2007's return was good given the market background and this result was achieved with lower volatility than both equities and gilts.

Over any longer time frame the Phoenix Fund has performed very well, and since restyle it has risen in excess of 64% (after annual management charges) against our cash +2% benchmark of 37.1%. This return has been achieved with volatility less than half that of equity markets.

Philip Collins
11 January 2008

⁶ See Glossary

Investment themes

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, Mosaic, K&S, Syngenta, Harewood Agrinvest

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: BHP Billiton, CVRD, K&S, Panalpina, Xstrata

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: EFG Eurobank, KBC, Standard Chartered, Unicredito, DBS

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: BP, ConocoPhillips, Occidental, Total, Subsea 7

⁶ See Glossary

Investment style & other information

The investment style of the Phoenix Fund is based firmly upon diversification. There is diversification between different asset classes as well as within each asset class. The Phoenix Fund focuses on diversification rather than dynamic asset allocation. However, asset allocation decisions form a part of the investment style.

The aim of diversification is to mix different asset classes in such a manner that the Fund is capable of providing a suitable return (the target is 2% above cash) whilst dampening the volatility^g of that return (the risk^g). Whilst return is the primary consideration, risk reduction is a strong secondary one. However, investors should be clear that investment in this Fund carries some risk (to generate the additional return) and there will be periods when the Fund price falls, causing underperformance of the benchmark.

Within equities and bonds^g, (except UK Government Bonds) the majority of holdings represent less than 1% each of the Phoenix Fund.

Within hedge funds^g, private equity^g and property, a limited number of investment vehicles are held. However, each investment vehicle provides the Phoenix Fund with exposure to a large number of underlying investments such that the maximum exposure of the Fund to any one property, hedge fund^g or private equity^g investment is less than 1% of the Phoenix Fund.

The Other category includes any assets not covered by the asset classes cited above.

Dividend information

Ex dividend dates – 31 January & 31 July

Dividend payment dates – 24 March & 24 September

Fee information

The annual management fee of the Phoenix Fund 'B' share class is 0.8% (introduced on 14 March 2006).

The Fund deals daily.

Fund management team

Lead Manager: Philip Collins

Management Team: Charles Insley, Samantha Arnold, Gemma Woodward, Helen Bayley, John Hair

* Source: Newton 31 December 2007

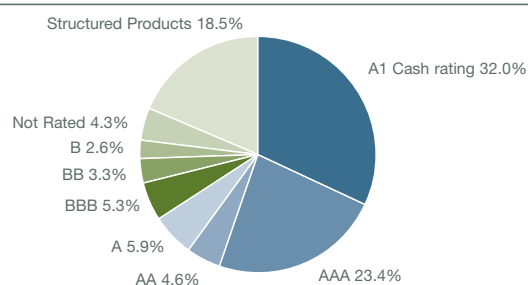
^g See Glossary

Appendix 1 Valuation as at 31 December 2007

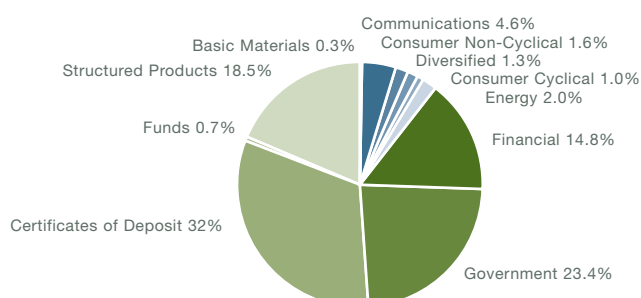
Bonds

Investment Grade Bonds ⁶	Holding %	Sub-Investment Grade Bonds ⁶	Holding %
Alliance & Leicester CD 5.76% 14/02/07-11/02/08	1.8	BCM Ireland Pref FRN 15/02/2017	0.4
Barclays Bank 6% 29/06/2049	0.8	Breeze Finance 6.708% 19/04/2027	0.2
CRC Breeze Finance 5.29% 8/05/2026	0.4	Collins Stewart Tullett 8.25% 12/08/2014	0.5
Dexia Bank Belgium CD 6.2% 24/07/07-24/04/08	2.2	Edcon Holdings FRN 15/06/2015	0.3
Dubai Holding Comm Ops 6% 01/02/2017	0.2	Elders 9 % High Yeild Shs	0.9
European Investment Bank 3% 16/6/2008	0.8	Elders (Merrill Lynch Intl) Capital Accumulation II	0.5
France Telecom 7.5% (9%) 14/3/2011	0.5	Elders (Merrill Lynch Intl) Capital Accumulation III	0.7
Glencore Finance Europe 6.5% 27/02/2019	0.7	Elders (Merrill Lynch Intl) FR Income	0.6
Irish Life & Permanent CD 5.88% 26/04/07 - 22/04/08	1.8	Harewood Structured Invest Euro Shield	0.3
Koninklijke Kpn 5.75% 18/03/2016	0.3	Invitel FRN 01/02/2013	0.1
Koninklijke Kpn 6% 29/05/2019	0.3	Kensington Group 9% 21/12/2015	0.1
Metlife Global Funding I 5.25% 09/01/2014	0.6	Merrill Lynch Intl Call Wts 30/08/12	0.8
Nationwide Bdg Society CD 5.8% 29/01/07 - 25/01/08	2.0	New City High Yield Fund	0.2
Northern Rock CD 5.82% 03/05/07 - 04/02/08	1.8	New World Resources 7.375% 15/05/2015	0.1
Pacific Life Funding 5.125% 20/01/2015	0.5	Stena AB 6.125% 01/02/2017	0.4
Saphir Finance 6.8509 4/07/2049	0.5	Symphony Eurostoxx50 Pref 05/11/2013	0.8
SLM Student Loan Trust 5.15% 17/09/2015	0.9	Symphony Eurostoxx50 Pref 19/02/2013	0.5
Standard Chartered Bank 8.103% 29/05/2049	0.3	Symphony Eurostoxx50 Autocall 27/09/2013	0.6
Treasury 4% Stk 7/03/2009	2.0		7.7
Wells Fargo & Co 4.75% 30/11/2010	0.4		
	18.6		
		Index Linked Bonds⁶	
		Tesco PLC 4% Index- Linked 8/09/2016	0.5
		Treasury 2.5% Index-Linked 23/08/2011	1.2
		USA Treasury Notes IL 15/07/2012	2.2
			3.9

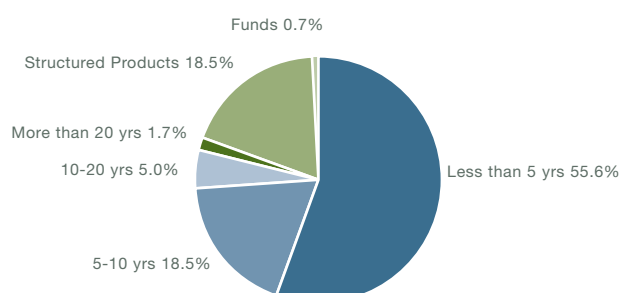
Bond Credit Ratings⁶



Bond Sector Weighting



Maturities



Source: Newton - subject to rounding differences

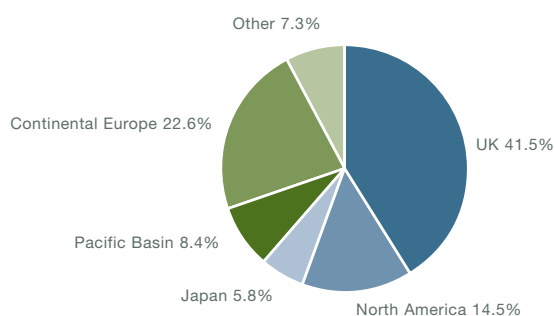
⁶ See Glossary

Appendix 1 (continued) Valuation as at 31 December 2007

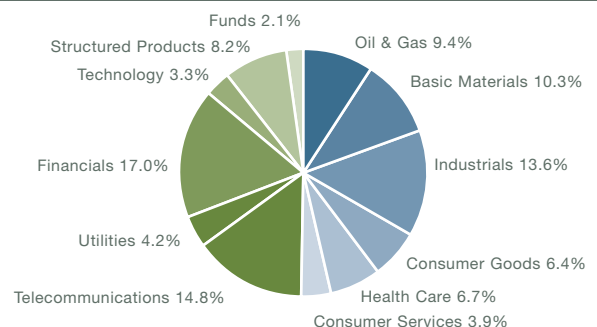
Equities

	Holding %		Holding %
ABC Learning Centres	0.2	ICAP	0.7
Acciona	0.6	Interpublic Group	0.2
Air Liquide	0.4	Japan Tobacco	0.4
Anadarko Petroleum	0.4	K&S Group	0.6
BAE Systems	0.5	LG Telecom	0.6
Bank of Ayudhya	0.4	Lilly (Eli)	0.3
BHP Billiton	0.8	Medtronic	0.2
BP	1.0	Millicom Cellular	0.9
British American Tobacco	0.5	Mosaic	0.3
Bunzl	0.3	MTN	0.4
Cable & Wireless	0.5	Novartis	0.4
Canadian Pacific Railway	0.3	Old Mutual	0.3
Canon Inc	0.2	Panalpina	0.7
Capita Morant Wright Japan	0.5	Prudential	0.6
Carrefour	0.3	Roche	0.3
Centrica	0.5	Royal Dutch Shell	0.4
Cisco Systems	0.5	Scottish & Southern Energy	0.4
Close Japanese Accel Return Fund II	0.4	Serco	0.3
Cobham	0.4	Smith & Nephew	0.4
Companhia Vale Do Rio Dolce	0.3	Smiths Group	0.3
Conocophillips	0.5	Standard Chartered	0.9
DBS	0.7	Subsea 7	0.3
Deutsche Boerse	0.7	Symphony FTSE Absolute Return	0.8
Deutsche Post	0.6	Syngenta	0.3
Diageo	0.5	Taiwan Semiconductor	0.2
E.ON	0.6	Teck Cominico	0.3
EAGA	0.3	Tele Norte Leste Participacoes	0.3
Ebay	0.3	Telefonica	0.5
EFG Eurobank Ergasias	0.2	Telstra	0.5
Elders (Merrill Lynch Intl) Capital Accumulation IV	0.6	Telstra Rights	0.2
Elders (Merrill Lynch Intl) Japan Cap Protected III	0.4	Tesco	0.4
European Equity Tranche	0.2	Total	0.5
Gildan Activewear	0.6	Unicredito	0.5
Glaxosmithkline	0.6	Verisign	0.2
GVT Holding	0.2	Vodafone	1.0
Harewood BNP Paribas Absolute Prog	0.5	VT	0.4
HSBC	0.3	Woong Jin Coway	0.2
HSBC Infrastructure	0.4	Xstrata	0.4
			33.0

Equity Regional Weightings



Equity Sector Weightings



Source: Newton - subject to rounding differences

Appendix 1 (continued) Valuation as at 31 December 2007

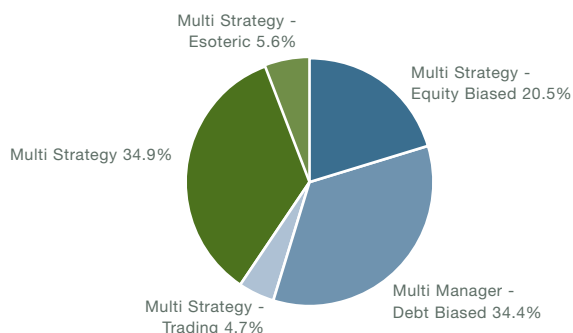
Fund of Hedge Funds^G/Hedge Funds Holding %

Acencia Debt Strategies	1.9
Alternative Inv Strategies	0.9
Close Allblue Fund	2.3
Dexion Absolute Ltd	0.9
Dexion Alpha Strategies	1.2
Dexion Equity Alternative	0.6
Dexion Trading	1.0
F & C Event Driven	0.9
FRM Credit Alpha	3.1
Goldman Sachs Dynamic Opps GBP	1.0
Goldman Sachs Dynamic Opps USD	1.1
Gottex Market Neutral Trust	0.6
MW Tops	1.5
New Star RBC	0.2
Saltus European Debt Strategies	0.9
Signet Global Fixed Interest	0.7
Tapestry Investment	2.5
Third Point Offshore Investors	0.3
Total	21.5

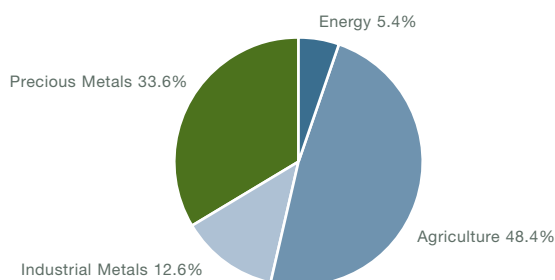
Commodities Holding %

Barclays Bank Agric Accel 17/3/11	0.6
Ceres Agriculture	0.6
Gold Bullion	1.2
Harewood BNP Energy Base Metals II	0.6
Harewood BNP Energy Agrinvest	0.6
Total	3.5

Fund of Hedge Fund Strategies



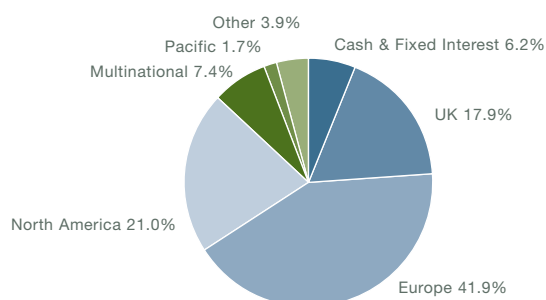
Commodities



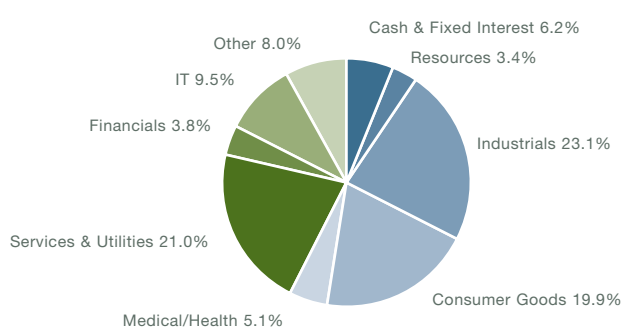
Private Equity^G

	Holding %
Bear Stearns	0.3
F & C Private Equity Trust 'B'	0.5
Pantheon Intl Participations	0.1
SVG Capital	0.2
Total	1.1

Private Equity Regional Weightings*



Private Equity Sector Weightings*



Source: Newton - subject to rounding differences

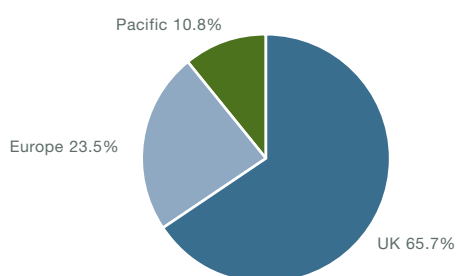
* Latest available company information – from underlying investments

^G See Glossary

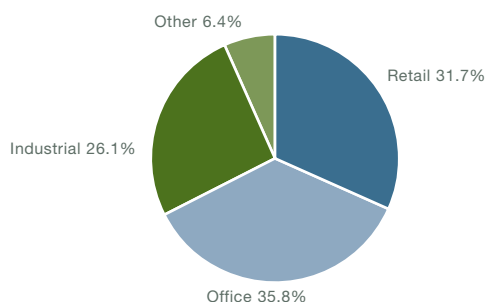
Appendix 1 (continued) Valuation as at 31 December 2007

Property	Holding %
Alpha Pyrenees Trust	0.2
Atlas Estates	0.3
Axa Property Trust	0.2
Barclays FRN 31/03/08	0.5
Barclays IDX Cert 31/03/09	0.9
Champion Real Estate	0.3
F & C Commercial Prop Tst	0.4
ING UK Real Estate	0.7
Invesco Property Income Trust	0.4
Invista European Real Estate	0.9
Invista Foundation Property Trust	0.9
Mapletree Logistics	0.5
Matrix European Real Estate	0.2
Teesland Advantage Property Trust	0.4
UK Commercial Property Trust	0.6
	7.2

Property Regional Weightings*



Property Sector Weightings*



Other	Holding %
Alternative Asset Opps	0.2
Ruffer Investment Co	0.2
	0.4

Cash	Holding %
Sterling Capital	3.4
Euro	0.0
US Dollars	0.0
	3.4

Currency Hedging ^G	Holding %
Sterling	4.7
Euro	-1.9
US Dollars	-3.0
South African Rand	0.0
	-0.18

Source: Newton - subject to rounding differences

* Latest available company information – from underlying investments

^G See Glossary

Appendix 2 Statistical analysis of returns

This page analyses the weekly movements and volatility^g of the Fund price and compares these with weekly movements and volatility^g in bond and equity markets. The Fund Manager's comment on these figures is at the bottom of the page.

Number of weeks since restyle (11 April 2003): 246

	Phoenix Fund (post restyle)	Equities*	Sterling Bonds**
Sharpe ratio ^g	1.25	0.82	-0.03
Sortino ratio ^g	1.99	1.29	-0.05
Information ratio ^g	0.86	0.65	-0.51
Positive weeks ^g	67%	57%	57%
Average gain in positive weeks	0.58%	1.40%	0.39%
Average loss in negative weeks	-0.56%	-1.25%	-0.37%
Average gain/loss in all weeks	0.21%	0.27%	0.09%
Standard deviation ^g of weekly returns	0.71%	1.64%	0.58%
Annualised standard deviation ^g	5.09%	11.80%	4.20%
Downside deviation ^g (weekly)	0.45%	1.05%	0.36%
Annualised downside deviation ^g	3.22%	7.54%	2.62%
Correlation ^g with equities	0.74		
Correlation ^g with bonds	-0.13		
Largest Loss ^g (peak to trough)	-6.06%	-12.34%	-5.32%
When Equities have risen			
Average gain/loss when equities rise	0.59%	1.40%	–
When Equities have fallen			
Average gain/loss when equities fall	-0.31%	-1.25%	–

- Phoenix Fund:** Bid to bid – 12 noon pricing
*** Equities:** FTSE World (Total Return Index) – price at close
**** Sterling Bonds:** FTA Government All Stocks (Total Return Index) – price at close

Source: Newton as at 31 December 2007.

^g See Glossary

Appendix 3 Glossary

Bonds

Tradable debt issued by governments, quasi government bodies or companies. Interest is usually fixed until maturity and paid annually. The bond is repaid by the issuer at maturity.

Correlation

A statistical measure of the degree to which the movement of two variables are related. Correlation of 1 means the two variables move in perfect unison, -1 means they move in completely opposite directions while 0 means the movement of one variable is independent of the other.

Credit rating

A rating awarded by credit rating agencies (Standard & Poor's and Moody's are the best known) after analysing the creditworthiness of the issuer. AAA is the safest rating.

Currency hedging

Much of the hedge fund exposure (for example) is denominated in US dollars, giving a currency risk. To offset this, the Fund sells US dollars against sterling for settlement in the future. The Fund therefore has a debt in dollars and a sterling asset. Movement in currency hedging will offset currency moves affecting the hedge fund investment.

Downside deviation

Standard deviation measures the variability of all returns, downside deviation measures the variability of all returns below zero. The Phoenix Fund aims for low downside deviation.

Exchange Traded Fund (ETF)

A passively managed investment fund that is traded on a stock exchange. In this case, the gold ETF invests in gold bullion. The Fund price moves in line with the gold bullion price.

Gold

The Newton Phoenix Fund invests in a listed exchange traded fund (ETF) that invests in gold bullion.

Hedge funds

Unregulated funds with wide investment powers (for example the ability to hold short positions, ie. sell an asset the fund does not own). There is an enormous number of possible investment strategies. The Newton Phoenix Fund gains its exposure to these funds by investing in listed investment trusts and companies that invest in hedge funds.

Index linked bonds

Bonds with interest and capital repayment linked to inflation.

Information ratio

The relative performance of the Fund divided by the volatility of that relative performance. A figure above 0 shows that the Fund has outperformed the benchmark. For the purposes of this Fund, all information ratios use LIBOR +2% as the benchmark.

Investment grade bonds

Bonds with a credit rating of Baa3/BBB- or better. AAA is the safest rating.

Investment trusts

A company that invests in (for the purposes of this Fund) property or private equity, the investment trust is quoted and traded on a stock exchange.

Largest loss

The largest loss (from peak to trough) suffered by the investment or index. Also known as maximum drawdown. The Phoenix Fund aims for a low figure.

LIBOR +2%

The benchmark for this Fund. LIBOR (London Inter Bank Offer Rate) is a cash interest rate available to large high quality institutions.

Positive weeks

The percentage of weeks (since the restyle of this fund) that saw a rise in the fund or index.

Private equity

Unquoted companies – venture capital (early stage) and management buy outs/ins (established companies).

Risk

In the context of this Fund the variability of returns or volatility. This is measured by standard deviation.

Running yield

A measure of the income stream of a bond – the annual interest rate divided by the price of the bond.

Sharpe ratio

A measure of risk adjusted return. The excess return (in this case, the return above cash) divided by the standard deviation. A higher number suggests a more efficient mix of returns and volatility.

Sortino ratio

A measure of risk adjusted return similar to the Sharpe ratio, the difference being the Sortino ratio uses downside deviation, not standard deviation of all returns. A higher number suggests a more efficient mix of returns and downside volatility.

Appendix 3 (continued) Glossary

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). The Phoenix Fund aims for a low standard deviation of returns.

Structured Product

An investment trust (for the purposes of this Fund) that provides a return based on derivatives (or options) linked to stock market indices. Typically, the investment trust holds a sum in cash to provide capital protection if markets fall with the remainder invested in options to benefit from any market rise. However, many different structures are possible.

Sub-investment grade bonds

Bonds with a credit rating below Baa3 (Standard & Poor's) or BBB- (Moody's). The risk of default or lack of interest payment is higher than for Investment Grade Bonds.

US Traded Life Interests Fund

A fund that obtains its return from the realisation of US life insurance policies purchased in the secondary market.

Volatility

A risk measure, calculated using standard deviation. The higher the figure the more variable the return of an investment.

Risk Factors

This is a financial promotion and is not intended as investment advice.

Past performance is not necessarily 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. Part of the Fund may be invested in sub-investment grade bonds that typically have a low credit rating and carry a high degree of default risk, which can affect the capital value of your investment. As the Fund has exposure to hedge funds, gold, private equity and property via publicly quoted transferable securities, there are additional risks associated with these sectors.

Issued by Newton Investment Management Limited. The Newton Phoenix Fund is an authorised unit trust operated by Mellon Fund Managers Limited. Newton Investment Management Limited and Mellon Fund Managers Limited are authorised and regulated by the Financial Services Authority and are members of the IMA.

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