

Newton Investment Management

Sub-fund of UK-authorized Oeic

Report Issued: February 2008

Peer Group:

Asset Allocation Global Flexible

Fund Manager/Adviser:

Iain Stewart (since March 2004)

Location:

London

Launch Date: September 1993

Fund Size (January 2008):

£343m

Group Contact No:

+44 500 660000

Website:

www.bnymellonam.com

S&P ID Number: SB067803

Share Class screened:

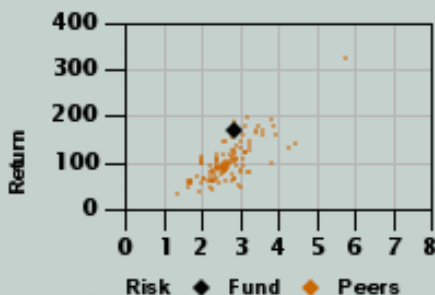
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INVESTMENT STYLE

	Value	Blend	Growth
Large-Cap			
Mid-Cap			
Small-Cap			

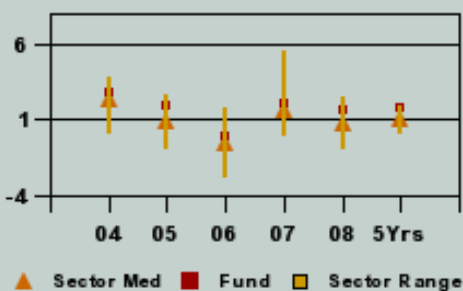
RISK RETURN (STD DEVIATION) OVER 5 YEARS



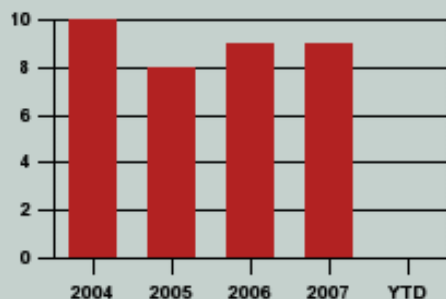
3 YEAR RISK CHARACTERISTICS

Maximum Drawdown	Low	-4.4
Volatility	Low	8.2
Correlation	Medium	0.6

SHARPE RATIO VS PEER GROUP



CALENDAR YEAR DECILE RANKS



Decile ranking in discrete annual periods. 1st decile shown as rank 10, 2nd decile as rank 9, etc. to 10th decile as Rank 1.

Please see page 2 for required research analyst certification disclosure.

Further information on S&P's fund coverage can be found at

www.funds.standardandpoors.com

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STANDARD & POOR'S OPINION (FEBRUARY 2008)

This fund is run by Iain Stewart in a thematic yet risk-aware fashion and at times is a more exaggerated and concentrated version of the AA rated Newton Balanced Fund. He is a very experienced investor, one of the main drivers of Newton's approach and constantly leads the discussion on themes and idea generation. Although certainly highly aware of risk, he has clear views and is not afraid to back his conviction and, at times, take even more aggressive positions than other managers within the team.

Stewart draws on the input from Newton's large resources and this fund has a high commonality with the house model portfolio. He nevertheless has the ability to cross-compare ideas and build a portfolio for the long-term while also making a good tactical use of derivatives. In this fund, Stewart looks for

"offsetting views", populating the portfolio with a concentrated set of fairly different stocks. This allows a focused portfolio to maintain a relatively low risk profile.

The year 2007 was an extremely successful one for Newton, as the focus on developing markets and the low weight in financials added considerable value on the equity side, while the move to reduce risk from the bond portion of the portfolio proved right. Although the success of this product has not yet been tested over a period of protracted market fall, we observe that the fund performed extremely well during the short lived corrections that characterised the 2004-2007 period. Stewart is an effective asset allocator who is supported by strong resources. The fund easily retains its S&P AA rating.

FACT FILE

Group: Newton is part of the Bank of New York Mellon Corporation, a leading financial services company based in New York, USA. It was Bank of New York Mellon's first substantial acquisition outside the USA.

Team: Stewart heads the multi-asset desk of seven experienced managers who draw heavily on group input from a variety of sources, including macroeconomics, equities and bonds.

Fund Manager: Stewart has 23 years' investment experience, all at Newton. He has focused on

managing lower volatility, multi-asset mandates since 1988 and has managed Newton Exempt Fund since 1992.

Style: The fund is run in a thematic fashion and mainly invests in equities and bonds, but has the flexibility to invest in other asset classes. It is benchmarked against Libor +4%.

Performance: Over the five years to 31/12/2007 the fund has returned 168.3%, compared with 93.4% for the sector median, ranking 10/124.

FUND MANAGER & TEAM

Newton's multi-asset desk of seven is responsible for managing low volatility, global asset allocation funds. Iain Stewart sits on the investment strategy group (ISG), which includes the CIO, economists and senior fund managers. He is responsible for assets around £3.7bn split across three main mandates.

Strategy is discussed monthly and expressed through the multi-asset model, ensuring global themes are applied consistently across models adapted for specific client objectives. The team also makes use of the teams of regional managers and the over 20 global equity research analysts. A separate team actively manages fixed interest assets, while asset and geographical allocation tends to reflect the house view. Managers relevant to this fund are:

Iain Stewart - PhD (University of East Anglia), worked for MAFF Directorate of Fisheries Research for five years before joining Newton in late 1985. He has managed multi-asset global mandates since 1988.

Jon Bell - MA natural sciences (Cambridge), joined Newton in 1995 and is a director of investment management (global funds).

Matthew Brown - BA history (University of Bristol), joined Newton in 2000 as a graduate trainee.

PORTFOLIO CHARACTERISTICS

No. of holdings	81
Turnover ratio (%)	60
% in top 10	26

TOP 10 HOLDINGS (01/01/08)

	%
Vodafone Group	5.3
GlaxoSmithKline	4.7
Abbey National Treasury Servs	2.3
Royal Bank of Scotland Grp	2.3
BP	2.0
Millicom Intl Cellular	1.9
Standard Chartered	1.9
Veolia Environnement	1.9
Advanced Info Service	1.8
Petroleo Brasileiro	1.8

* In top 10 holdings a year ago

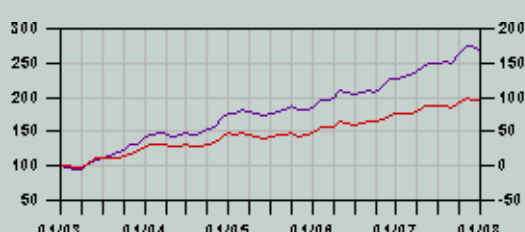
ALLOCATION BREAKDOWN (01/01/08)

EQUITY	
North America	11
United Kingdom	23
Europe ex UK	12
Japan	0
Pacific ex Japan	8
Others	12
FIXED INTEREST	
United Kingdom	0
Others	0
CASH	34

PERFORMANCE STATISTICS

	3 Years	5 Years
Fund	52.7%	168.3%
Standard & Poor's Peer Median	31.5%	93.4%
Fund Rank	21/198	10/124
Standard Deviation	8.2	-
Relative Standard Deviation	1.0	-
Volatility Adjusted Ranking	16/198	-

CUMULATIVE PERFORMANCE



— Fund — Asset Allocation Global Flexible

Ucits III permits net fund exposure to be less or greater than 100%.

MELLON INVESTMENT FUNDS - NEWTON ABSOLUTE INTREPID FUND

Peer Group: Asset Allocation Global Flexible



MANAGEMENT STYLE

- The fund is targeted to provide significant real rates of return over time, defined as outperforming the return on cash by 4% on a rolling, three-year basis. Volatility is targeted at 10% to 12%.
- Stewart uses the group's thematic process for portfolio construction and relies on Newton's team of analysts to identify individual securities that should produce an absolute return while expressing those themes.
- The mandate is extremely flexible. The manager can invest in any asset class - other than direct property - and is unconstrained by sector allocation, geography or currency.

Stewart expects to add value from both top-down asset allocation and bottom-up security selection. The neutral asset allocation is 65% equities and 35% bonds, but the portfolio can vary significantly from this. Cash may be taken to 50% in difficult markets and while the fund cannot take short positions, there is a "put" program in place to help provide some downside protection.

The fund is a more focused (in terms of number of holdings) yet more diversified (in terms of direction of bets) version of the Newton Balanced Fund, which is also managed by Stewart.

PORTFOLIO REVIEW

The house view continues to favour developing markets while being extremely cautious on bonds. This has led to prefer equities (63.2%), in particular favouring emerging markets, and to a zero direct exposure to bonds, deemed less attractive than cash, which is over 33.7%.

Some indirect exposure to bonds is gained through options on US and German treasury bonds totalling around 27% of the fund. On the equity side, in contrast, Stewart has maintained some protection largely through put options on the FTSE 100 index (effectively hedging around 30% of the portfolio).

Stewart is nevertheless aware that a market correction might also impact the performance of developing markets and has therefore become increasingly selective and even more focused on quality names with attractive yields.

The fund is overweight telecoms and pharma and remains significantly underweight banks. Exposure to commodities favours agricultural ETFs. The currency positioning favours euro and the Singapore dollar.

PERFORMANCE ANALYSIS (JANUARY 2008)

Although the fund was launched in 1993, its name, manager, peer group and objective changed in April 2004, when it became an unconstrained product. Since then, performance has been extremely strong, comfortably above its objective and outpacing a global equities index while maintaining a lower risk profile. While we note that this process has not yet been tested over a protracted market fall, the fund has performed strongly during the six short-lived corrections that characterised the 2004-2007 period.

Within its S&P sector, risk-adjusted returns are top decile over three years.

In 2005, the fund benefited from its exposure to resources and emerging markets. In 2006, the fund benefited from its almost zero exposure to bonds and its bias towards Asia. Most of the house themes did well in 2007, with strong returns from emerging markets, agricultural commodities and telecoms and the significant underweight in financials. Within bonds, favouring cash and quality also proved correct.

DISCRETE PERFORMANCE (CALENDAR YEARS)

	2004		2005		2006		2007		YTD 31/12/2007	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
Fund	22.9	16/187	4.7	63/203	23.9	42/209	17.6	24/210		/
Median	13.6		0.7		18.7		11.2			

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