

Newton Investment Management
Sub-fund of UK authorised Oeic

Report Issued: February 2008

Peer Group:

Balanced Managed

Fund Manager/Adviser:

Iain Stewart (since January 2005)

Location:

London

Launch Date: November 1986

Fund Size (January 2008):

£1073m

Group Contact No:

+44 500 660000

Website:

www.bnymellonam.com

S&P ID Number: UT067785

Share Class screened:

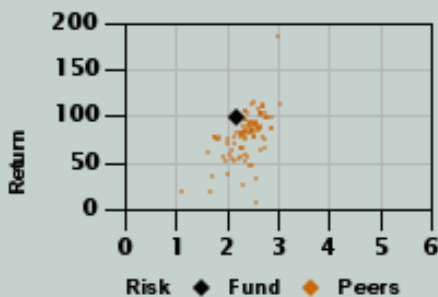
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INVESTMENT STYLE

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

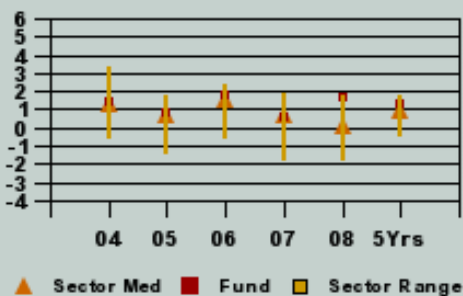
RISK RETURN (STD DEVIATION) OVER 5 YEARS



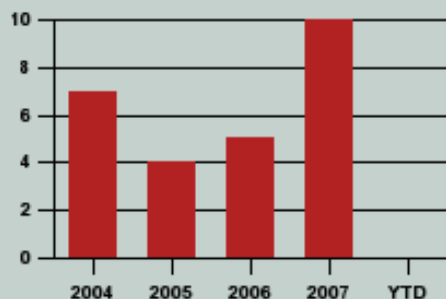
3 YEAR RISK CHARACTERISTICS

Maximum Drawdown	Low	-5.3
Volatility	Low	6.9
Correlation	High	0.8

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)

Iain Stewart continues to manage this portfolio in a thematic yet risk-aware fashion. He is a very experienced and highly knowledgeable investor, one 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.

In keeping with the house approach, 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.

Having been early into some areas (telecoms), Newton had an extremely successful year in 2007, as the focus on developing economies and the underweight in financials added considerable value on the equity side, while the move to reduce risk from the bond portion of the portfolio also proved right.

Newton's thematic and - at times - contrarian approach can lead it to be early and therefore result in some short term underperformance. However this is mitigated by Stewart's ability to maintain a good spread of bets in the portfolio and is demonstrated by the top-decile, risk-adjusted ranking of the fund over the last three years.

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 but cautious fashion and without taking excessive risk against the competition. Stock selection is biased towards quality large- and mid-cap names.

Performance: Over the five years to 31/12/2007 the fund has returned 98.2%, compared with 82.3% for the sector median, ranking 20/104.

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	142
Turnover ratio (%)	49
% in top 10	23

TOP 10 HOLDINGS (01/01/08)

	%
Vodafone Group	5.0
GlaxoSmithKline	4.2
BP	3.9
Royal Dutch Shell	2.4
Standard Chartered	1.8
Tesco	1.4
HSBC Holdings	1.3
Prudential	1.2
BHP Billiton	1.1
Cable & Wireless	1.0

* In top 10 holdings a year ago

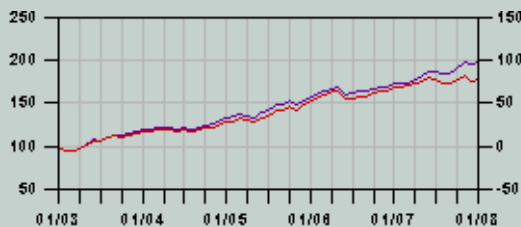
ALLOCATION BREAKDOWN (01/01/08)

EQUITY	
North America	8
United Kingdom	38
Europe ex UK	17
Japan	4
Pacific ex Japan	5
Others	8
FIXED INTEREST	
United Kingdom	1
Others	0
CASH	19

PERFORMANCE STATISTICS

	3 Years	5 Years
Fund	49.5%	98.2%
Standard & Poor's Peer Median	39.2%	82.3%
Fund Rank	14/132	20/104
Standard Deviation	6.9	-
Relative Standard Deviation	0.8	-
Volatility Adjusted Ranking	4/132	-

CUMULATIVE PERFORMANCE



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

MELLON INVESTMENT FUNDS - NEWTON BALANCED FUND

Peer Group: Balanced Managed



MANAGEMENT STYLE

This fund is a conservative balanced managed fund which has historically shown a sizable bias to the UK. While benchmarked against the WM Private Client balanced indicator, attention is paid to the more retail-oriented Lipper Balanced Managed competitor index. Regional and sector deviations from these benchmarks can be significant.

The group's global multi-asset model forms the basis for portfolio construction, although Stewart has discretion over the precise stock and sector weightings. There is around a 70% commonality of holdings with the model. This represents a relatively stable

core of large-/mid-cap names and reflects the prevailing global themes of the group.

Stock selection outside the core is drawn exclusively from the analysts' recommended list, focusing on quality management, dominant and growing market share and value relative to the market. Cashflow is considered key in assessing a stock's potential total return.

The portfolio is well diversified and single positions seldom exceed 4% of the total assets. The portfolio has a minimum 15% exposure to cash and bonds. Derivatives are used and currency is hedged on the advice of currency specialists and strategists.

PORTFOLIO REVIEW

The house view continues to favour developing markets while being extremely cautious on the bond market. This has led to an overweight in emerging markets (especially Asia) and a zero exposure to bonds, deemed less attractive than cash. 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.

Activity in the bond portion has included buying and subsequently selling some calls on US and German treasury bonds. On the equity side, in contrast, Stewart has maintained some protection largely through put options on the FTSE 100 index.

From a sector perspective, the fund is overweight telecoms, pharma and food producers and remains significantly underweight banks and real estate. Exposure to commodities favours agricultural and gold-related instruments. The currency positioning favours euro and the Singapore dollar.

PERFORMANCE ANALYSIS (JANUARY 2008)

Iain Stewart took over this fund in January 2005 but the approach did not significantly differ from the one adopted by his predecessor and this portfolio is ranked top quartile over both three and five years (top decile risk adjusted).

The marginal underperformance in both 2004 and 2005 was largely due to being too early out of bonds and into cash, as well as favouring telecoms. Slightly below median returns in 2006 also resulted from stock selection in UK and Japanese equities

coupled with being underweight mining and overweight pharma.

Most of the house themes, however, eventually came right and led to strong returns in 2007, when the main sources of added value were the overweight in emerging markets and telecoms and the significant underweight in financials (banks in particular). Within bonds, favouring cash and quality also proved correct. Maintaining some exposure to commodities through ETFs added significant value. In contrast, the overweight in pharma has not yet paid off.

DISCRETE PERFORMANCE (CALENDAR YEARS)

	2004		2005		2006		2007		YTD 31/12/2007	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
Fund	10.2	48/126	18.8	83/132	9.6	77/134	14.8	7/139		/
Median	9.6		20.0		10.2		5.2			

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