

Sub-fund of UK authorised Oeic

Fund owner: BNY Mellon Fund Managers

Fund manager: Newton Investment Management Limited

Named portfolio manager(s):

Christopher Metcalfe (since April 2007)

Peer group: UK Growth Mainstream

Location: London

Launch date: April 1985

Fund size (July 2009): £970m

Contact group: 0500 660000 or  
www.bnymellonam.com

Further information on S&P's fund coverage can be found at  
[www.FundsInsights.com](http://www.FundsInsights.com)



Report date October 2009

## Investment style

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

## Performance statistics

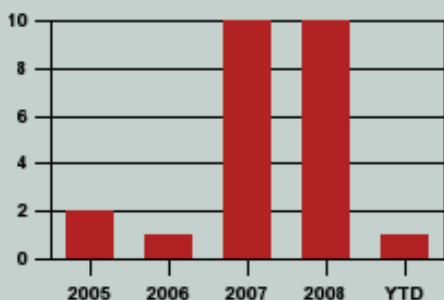
	3 Years
Fund	-2.9%
Standard & Poor's peer median	-19.0%
Index**	-18.2%
Fund rank	43/769

Note: returns are cumulative

## Three-year risk characteristics

Maximum drawdown (%)	Low	-25.4
Volatility	Medium	14.8
Correlation	High	0.9
Beta	Medium	0.8

## Calendar year decile ranks



Decile ranking in discrete annual periods. First decile shown as rank 10, second decile as rank nine, with tenth decile as rank one.

Performance data source - © 2009 Morningstar, Inc. All rights reserved. All statistical data on this report has been run to 30/06/2009 on NAV to NAV basis, with gross income reinvested, in UK sterling.

## Standard & Poor's opinion (September 2009)

The investment approach for Newton Income Fund follows the well-established and proven Newton process where top-down themes provide the context for stock selection. Highly experienced fund manager, Christopher Metcalfe, who joined Newton in 2006, appears to have settled in well within the Newton environment. Metcalfe, along with Richard Wilmot and Ben Russon determine the UK model portfolio, of which there is over 80% overlap with this fund.

The key top-down theme at Newton is currently "all change". The team believes that following the credit crisis, the tighter availability of credit and deleveraging will lead to subnormal economic growth in the UK. This theme has led to substantial deviations at sector and stock level. While Metcalfe is benchmark and risk aware, he is willing to exclude large index stocks and sectors. While up to 20% may be held in overseas companies, Metcalfe is using this flexibility mainly to buy into themes not available in the UK, rather than to increase the beta of the portfolio.

Relative performance has been very strong under Metcalfe. The fund is ranked in the top decile of UK mainstream funds from April 2007 to end June 2009. Added value has come from the fund's defensive stance at both sector and stock level which helped in 2008 but hindered from March to June 2009. This highlights the likelihood of periods of relative underperformance as long-term themes dominate. The proven long-term track record of Metcalfe, combined with a stable analytical team, results in the maintenance of a AA rating.

## Fund manager & team

Newton's UK equity team comprises seven fund managers split between London (Chris Metcalfe, Tineke Frikkee, Richard Wilmot and Paul Stephany) and Leeds (Simon Nichols, Ben Russon and Robert Shelton).

Metcalfe, Russon and Wilmot are responsible for creating the UK model portfolio that is the guideline for all the UK mandates. The team draws heavily on the research of the 20 global sector analysts, who have UK equity research responsibilities. It can also use input from four strategists, three credit analysts and three SRI specialists.

Christopher Metcalfe - MBA (Manchester Business School), joined Newton in June 2006 with over 20 years' investment experience, with nine years at Henderson and the rest at Schroders, where he led the UK equity prime team and chaired the UK equity stock selection committee.

## Management style

The fund is managed for total return seeking to achieve top quartile relative returns over rolling three-year periods and also to outperform the FTSE All-Share index by 1-1.5% a year net of fees. There is no formal income requirement, nor is any specific level of income targeted.

The investment approach follows the well-established Newton process, with a top-down thematic overlay providing the context for stock selection. The team looks for companies with good quality, sustainable earnings and strong cashflow (currently avoiding those with possibility of having a rights issue). Around 80% of the portfolio is common with the UK model portfolio.

The portfolio of 40-80 holdings is constructed in a benchmark-aware fashion, with positions taken on an 18 to 24-month horizon. Up to 20% can be invested overseas on a stock-specific basis. These are often triggered by relative valuation anomalies or to access a different theme. Short-term cash may go to 10%.

Small-cap exposure is limited to 5%. Sales occur when their target price is reached. There are no formal sector limits but stock deviations tend to be within +/-5% of benchmark and the tracking error is generally kept below 6%.

# BNY MELLON INVESTMENT FUNDS - NEWTON INCOME FUND

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## Portfolio & performance analysis (July 2009)

The fund size has been relatively stable at around £1bn as inflows have offset market falls. The overriding theme in the portfolio is "all change" where the Newton team expects that we are moving from a period of leverage to thrift and where GDP growth in the UK is forecast to be low (around 1-1.5% a year).

As a result, at sector level, the fund is substantially underweight financials. In banks, only HSBC is held and in insurance RSA is in the portfolio. Favoured areas are utilities and telecoms, liked for their strong cashflow. Metcalfe believes that there is exceptional value in many quality defensive stocks both on a relative and absolute basis. These include many of the top 10 holdings including Shell, Vodafone, BAT and AstraZeneca.

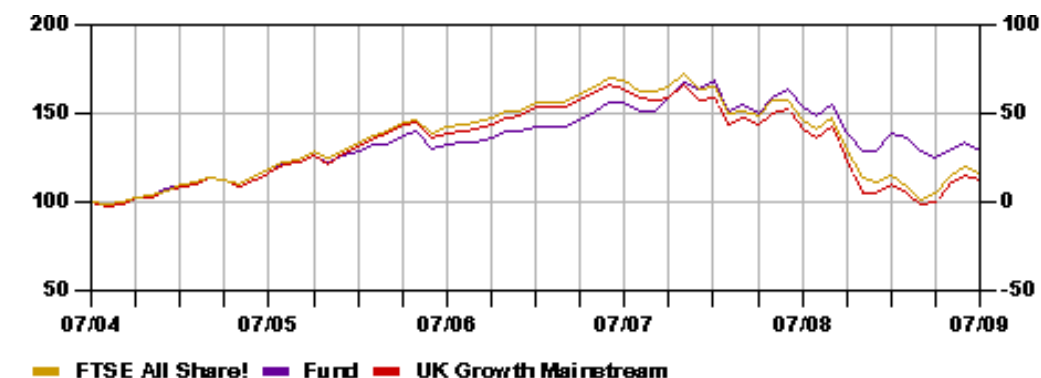
Overseas holdings represent around 8% of the portfolio and include themes that are harder to obtain in UK companies. Tele Norte is one example, which is a Brazilian telecom play. Cash was 7% at the end of June but has since been reduced to 3% following purchases.

Christopher Metcalfe took over the fund in April 2007 and since then the fund has delivered top-decile returns. Metcalfe has a successful longer-term track record in managing the Schroder UK Equity Fund, rated AA by S&P.

In calendar year 2007 the fund rose 18%, ranking in the top percentile in its S&P peer group. In 2008 it fell by 17.8% but proved considerably more resilient than its peers (median fund -30.5%). In the first half of 2009, the fund lagged its peers by an absolute 9%, ranking it in the bottom decile. Under the management of Metcalfe the fund has had a defensive stance which helped in the years 2007 and 2008 but hindered in H1 2009.

In 2007 and 2008 underweighting banks significantly helped relative performance. In 2009, an underweighting in the mining sector detracted as did stock selection as the fund was too defensive as markets rallied.

## Cumulative performance



## Portfolio characteristics

No. of holdings	49
Turnover ratio (%)	83
% in top 10	45

## Asset allocation (01/07/09)

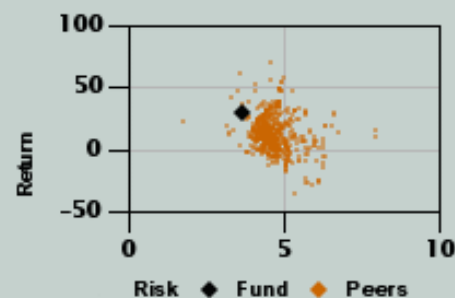
	%
Basic materials	4.9
Cash	7.5
Consumer Discretionary	8.1
Consumer Staples	14.5
Energy	17.3
Financials	3.6
Healthcare	10.7
Industrials	9.6
Technology	2.3
Telecoms	11.8
Utilities	9.7

## Top 10 holdings (01/07/09)

	%
Royal Dutch Shell	8.7
GlaxoSmithKline	6.3
Vodafone	6.0
AstraZeneca	4.4
BG	4.4
British American Tobacco	4.0
Unilever	3.1
BP	2.8
Cadbury	2.8
Centrica	2.7

\* In top 10 holdings a year ago

## Risk return (standard deviation) over five years



## Discrete performance (calendar years)

	2005		2006		2007		2008		YTD 30/06/2009	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
Fund	17.8	581/649	10.5	687/723	18.0	5/819	-17.8	17/890	-7.1	888/919
Index**	22.1		16.7		5.3		-29.9		0.8	
Median	21.1		16.7		2.9		-30.5		1.9	

\*\* FTSE All Share GBP! (The Industry Classification Benchmark is a joint product of FTSE International Limited and Dow Jones & Company, Inc. and has been licensed for use.)

Fund benchmark: FTSE All Share

## Share class information

	Initial charge	Exit charge	Annual charge	Expense ratio	Lump sum	Savings plan	ISIN
Ord	4.00	0	1.50	1.62	1,000	50	GB0006779549
Registered for sale		Austria, Germany, Spain, United Kingdom					

## Symbols and definitions

### Long-only fund ratings

**AAA** The fund demonstrates the highest standards of quality in its sector based on its investment process and performance consistency of the management team and/or approach as compared to funds with similar objectives.

**AA** The fund demonstrates very high standards of quality in its sector based on its investment process and management's consistency of performance as compared to funds with similar objectives.

**A** The fund demonstrates high standards of quality in its sector based on its investment process and management's consistency of performance as compared to funds with similar objectives.

### Fund-of-hedge-fund ratings

**AAA** The fund demonstrates the highest standards of quality based on its investment process, risk awareness and consistency of performance relative to its own objectives.

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### Absolute return fund ratings

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### All fund ratings

**NR** Funds designated as NR (Not Rated) currently do not meet the requisite performance standards and/or the minimum qualitative criteria.

**UR** Ratings are placed Under Review when significant management changes occur at the fund manager or fund management team level and Standard & Poor's Fund Services has not had the opportunity yet to evaluate their impact on the qualitative appraisal.

**New** Signifies where a major event has occurred for which there is no fund-specific track record available. This includes: funds recently launched, the implementation of a new investment process or mandate and may include structural changes within a fund team.

### Bond fund volatility ratings

The bond fund volatility rating is our current opinion of a fund's sensitivity to changing market conditions. Volatility ratings evaluate the fund's sensitivity to interest rate movement, credit risk, investment diversification or concentration, liquidity, leverage and other factors. For V1-V4 categories, risk is considered relative to a portfolio composed of government securities and denominated in the base currency of the fund.

**V1** Bond funds that possess low sensitivity to changing market conditions. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprised of government securities maturing within one to three years, and denominated in the base currency of the fund. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprised of the highest quality fixed-income instruments with an average maturity of 12 months or less. Within this category, certain funds are designated with a plus sign (+), indicating extremely low sensitivity to changing market conditions.

**V2** Bond funds that possess low to moderate sensitivity to changing market conditions. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprising government securities maturing within three to seven years, and denominated in the base currency of the fund.

**V3** Bond funds that possess moderate sensitivity to changing market conditions. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprising government securities maturing within seven to 10 years, and denominated in the base currency of the fund.

**V4** Bond funds that possess moderate to high sensitivity to changing market conditions. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprising government securities maturing beyond 10 years and denominated in the base currency of the fund.

**V5** Bond funds that possess high sensitivity to changing market conditions. These funds may be exposed to a variety of significant risks including high concentration risks, high leverage, and investments in complex structured and/or liquid securities.

**V6** Bond funds that possess the highest sensitivity to changing market conditions. These funds include those with highly speculative investment strategies with multiple forms of significant risks, with little or no diversification benefits.

### Absolute return fund N ratings

The N rating is Standard & Poor's indication of a fund's potential capital stability in normal markets. It is a qualitative rating but is based on annualised weekly downside deviation. N1 is the most stable and N9 the least.

10/14/2008

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