



September 2011

## BNY MELLON INVESTMENT FUNDS - NEWTON INCOME FUND

Sub-fund of UK-authorized Oeic

Fund owner: BNY Mellon Fund Managers

Fund manager/adviser: Newton Investment Management Ltd

Named portfolio manager/adviser(s):

Richard Wilmot (since March 2011)

Peer group: UK Growth Mainstream

Location: London

Launch date: April 1985

Fund size (June 2011): £1.46bn

Contact group: +44 500 660000 or

www.bnymellonam.com

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

### Investment style

	Value	Blend	Growth
Large-cap			
Mid-cap			
Small-cap			

### Performance statistics

	Three years
Fund	15.8%
Standard & Poor's peer median	19.9%
Index**	22.8%
Fund rank	535/787

\*\* 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.)

Note: returns are cumulative

### Risk characteristics

	Three years
Maximum monthly drawdown (%)	-10.3
Volatility	14.5
Correlation	0.9
Beta	0.7

### 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 - © 2011 Lipper inc. All rights reserved. All statistical data on this report has been run to 1 August 2011 on NAV to NAV basis, with gross income reinvested, in GBP.

### Standard & Poor's opinion (September 2011)

Richard Wilmot took over responsibility for this fund in March. He has had performance success running UK equity mandates, making full use of the ability to move up and down the cap scale as market conditions dictate. This fund, however, is more benchmark aware, and at over £1bn is one of Newton's flagship funds. As a result, Wilmot has chosen to take indirect exposure through the Newton Smaller Companies Fund - the previous manager, Christopher Metcalfe, used the flexibility to go off-benchmark to invest in selected non-UK companies.

Wilmot has been central to the UK team for some time, having significant influence on the process and so we are not surprised to learn of his promotion to team head. He remains in the group responsible for the UK model of 80 stocks, which now includes UK income manager Tineke Frikkee replacing Metcalfe. This addition should foster debate, with Frikkee coming very much from a dividend yield angle. Wilmot is supported by a well-resourced global analyst team that provides stock recommendations on 55 UK names and has given up responsibility for the small-cap fund.

In running this fund he intends to have around 100 names, but will focus the portfolio in bear markets. The high commonality with the UK model remains, but he is willing to back his own judgement, both in terms of stock selection and in the overall structure of this portfolio.

While more constrained on this fund and with the additional responsibility of being team head, we believe Wilmot can continue to demonstrate both pragmatism and skill. The fund attains an S&P AA (New) rating.

### Fund manager & team

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

Wilmot, Russon and Frikkee 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 strategists, credit analysts and SRI specialists.

Richard Wilmot - Investment leader - UK equities - BSc Chemistry (Bristol), ACA, joined Newton in 1999 as a UK smaller companies analyst before taking over the smaller companies fund in October 2001 and the all-cap Newton Growth fund in December 2005.

### 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 over 2% a year before fees over rolling five-year periods. 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. Around 80% of the portfolio is common with the UK model portfolio.

The portfolio of 80 to 120 holdings is constructed in a benchmark-aware fashion, with positions taken on an 18- to 24-month horizon. Small- and mid-cap exposure will be taken on a limited stock-specific basis but more typically through the Newton UK Smaller Companies Fund. Short-term cash may go to 20%.

Sales occur when a stock's 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%.

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# STANDARD & POOR'S



## Portfolio & performance analysis (June 2011)

On taking over, Richard Wilmot implemented a programme trade that turned over approximately 50% of the portfolio. Overseas holdings represented just 3% of the portfolio, Wilmot switched this to the Newton UK Smaller Companies Fund. Alongside some individual stock changes stemming from Wilmot having a different view, a change in the house view on sectors was also implemented reducing telecoms exposure and increasing financials.

At the time of our review, support services, travel & leisure and software were the most overweight sectors. The mining sector was also overweight, with all four majors held. Pharma (no Glaxo or AstraZeneca were held), mobile telecoms (following the sale of Vodafone on the analyst's change in view) and oil & gas were the sectors most underweight.

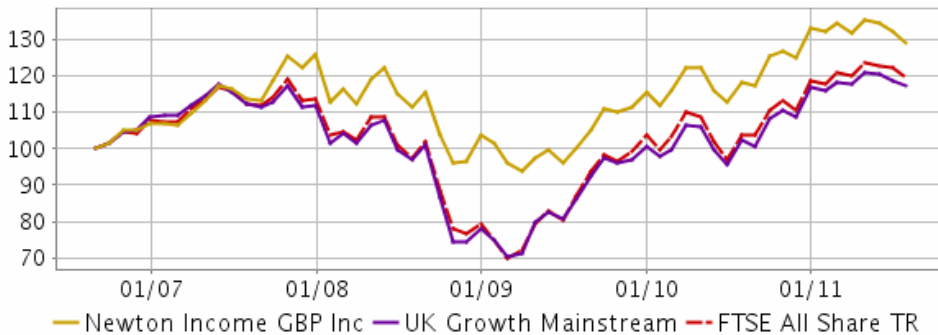
At the time of our review, 82% of the funds holdings were sourced from the UK equity model with 58% from the analysts' UK recommended list.

Christopher Metcalfe ran the fund until March 2011 delivering good returns under his management backed by the same UK model and resources on which Wilmot draws. This fund had a defensive stance which helped in 2007 and 2008 but hindered in 2009.

Wilmot's more aggressively managed growth fund showed a similar return profile until 2010 when Wilmot outperformed because of his willingness to purchase high-quality names in more cyclical sectors. The Newton Growth Fund ranks in the top decile since its 2005 inception.

Returns on this fund since March have been less strong. Having no exposure to large-cap pharma held back returns as did the positions in Lloyds, ICAP and Barclays. Names within the networked world and construction & reconstruction themes helped.

## Cumulative performance



## Calendar year performance

	2007		2008		2009		2010		YTD August 2011	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
Fund	18.0	5/670	-17.8	20/764	11.7	798/811	15.1	466/866	-3.2	857/934
Index**	5.3		-29.9		30.1		14.5		0.7	
Median	2.9		-30.4		28.6		15.6		0.1	

\*\* 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 screened: GB0006779549 (Ord)

## Portfolio characteristics (June 2011)

No. of holdings	106
% in top 10	36.3
Turnover ratio (%)	N/A

## Top 10 holdings

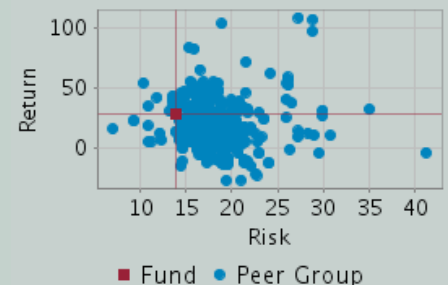
	%
BP	5.8
Royal Dutch Shell	5.2
Rio Tinto	3.9
British American Tobacco	3.8
BHP Billiton	3.4
HSBC Holdings	3.4
Standard Chartered	2.9
Tesco	2.8
Anglo American	2.8
Barclays	2.3

\* In top 10 holdings a year ago

## Sector allocation

	%
Basic materials	14.6
Consumer goods	6.2
Consumer services	15.4
Financials	19.8
Healthcare	3.0
Industrials	15.0
Information technology	4.2
Investment trusts	3.1
Oil & gas	14.8
Telecommunication services	0.9
Utilities	2.7

## Risk return (standard deviation) over five years



# STANDARD & POOR'S

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## 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 management's consistency of performance 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-funds ratings

#### Absolute return fund ratings

#### Specialist 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.
- AA The fund demonstrates very high standards of quality based on its investment process, risk awareness and consistency of performance relative to its own objectives.
- A The fund demonstrates high standards of quality based on its investment process, risk awareness and consistency of performance relative to its own objectives.

### Ucits III flexible beta fund ratings

- AAA The fund demonstrates the highest standards of quality based on its investment process, risk awareness and consistency relative to its own objectives and relative to comparable flexible beta funds.
- AA The fund demonstrates very high standards of quality based on its investment process, risk awareness and consistency relative to its own objectives and relative to comparable flexible beta funds.
- A The fund demonstrates high standards of quality based on its investment process, risk awareness and consistency relative to its own objectives and relative to comparable flexible beta funds.

### All fund ratings

- Not Rated (NR) Funds designated as Not Rated currently do not meet the requisite performance standards and/or the minimum qualitative criteria to achieve a fund rating.
- Under Review (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.
- Tenure Review (TR) The fund manager/team involved in the management of the fund does not currently have the minimum 12 months relevant investment management experience required to be eligible to be considered for a rating.
- Long-term fund management rating The fund has been rated in the A/AA/AAA fund rating band for five consecutive years or more, and continues to hold a rating.

### 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 comprising 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 comprising 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 less 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.