



February 2012

BNY MELLON INVESTMENT FUNDS - NEWTON INTERNATIONAL BOND 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):

Paul Brain (since January 2009)

Peer group: global bonds in GBP unhedged

Location: London

Launch date: January 1991

Fund size (January 2012): £747m

Contact group: +44 500 660 000 or www.bnymellonam.com

Further information on S&P's fund coverage can be found at www.FundsInsights.com

Investment style

	Inv Grade	Blend	Sub Inv Grade
Govt			
Corp			
Emerging			
ABS/MBS			

Performance statistics

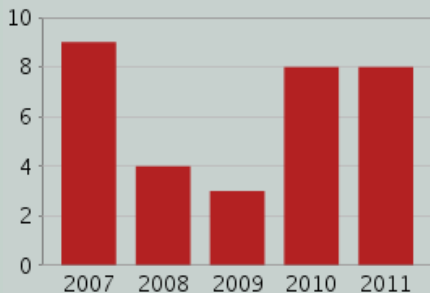
	Three years
Fund	10.5%
Standard & Poor's peer median	13.9%
Index**	10.3%
Fund rank	39/66
Volatility-adjusted ranking	40/66

** Barclays Capital Global Aggregate TR
Note: returns are cumulative

Risk characteristics

	Three years
Maximum monthly drawdown (%)	-5.6
Volatility	9.2
Correlation	1.0
Beta	1.1

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.

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Standard & Poor's opinion (February 2012)

The fund is managed by experienced investor Paul Brain, who aims to capture long-term macro trends drawing on Newton's in-house themes. Brain leads a 12-member fixed income team, which is organised into four groups - macro, emerging markets sovereign, investment grade and high yield corporate bonds.

The fund is managed to a sovereign-focused mandate and aims to add value relative to its global governments benchmark (JPMorgan Global Government Bond sterling unhedged index) primarily through macro duration, yield curve and currency bets. It does not invest in corporate issues, although it may include government-backed credit and agency bonds, and up to 15% of the portfolio may be invested in emerging markets debt.

Themes in the portfolio remained broadly consistent with last year. Brain continues to be comfortable with duration exposure in the main developed markets (except Japan), while still favouring currencies linked to good growth dynamics such as those of the emerging markets, Australia and Canada.

The fund's themes produced mixed results during 2011, leading to slight underperformance of the benchmark. However, returns were well above the peer-group median and follow strong performance versus peers during 2010. Over three years, the fund is ranked second quartile on a cumulative basis and third quartile over five years.

Our confidence in the manager and process allows the fund to retain its S&P AA/V4 rating.

Fund manager & team

Paul Brain leads the Newton fixed income team of 12, which manages approximately £6bn. The team is organised by macro, emerging markets sovereign, investment grade and high yield corporate bonds.

Paul Brain - joined Newton in 2004 from hedge fund group MSG & Partners, where he was CIO of fixed income. Brain has over 25 years of portfolio management experience, including senior fixed income roles at Investec and Credit Suisse Asset Management.

Howard Cunningham - MA modern languages (Oxford University), worked at NatWest in credit analysis, then became head of credit rating. He moved to Newton in 2000 and specialises in investment grade credit research.

Jon Day - BSc mathematics (Durham University), CFA, joined Newton in 2002 after qualifying as a chartered accountant with KPMG. His primary focus is analysing global government and investment grade bonds and macroeconomic modelling.

Management style

The fund aims to outperform the JPMorgan Global Government Bond sterling unhedged index by 2-3% gross annualised over the medium term with an acceptable level of risk. However, the benchmark is used only as a reference, and portfolio construction is made independently from it. A secondary objective is to deliver consistent absolute returns.

The investment approach is top-down and macro-research driven, and aims to capture the broad trends while managing market noise. Paul Brain forms his opinion from the Newton house view and consults with colleagues on the investment team to formulate a view on the macro economy and the implied outlook for interest rates and currencies.

Performance is driven primarily by often sizeable duration, relative value and currency bets. However, the fund will not be net short in any market. This is a sovereign-focused fund and it will not invest in corporates, although it may include government-backed credit and agency bonds. Emerging markets debt exposure is limited to a maximum 15% of the portfolio.

Derivatives (excluding OTC) are used to manage exposures.

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STANDARD & POOR'S



Portfolio & performance analysis (January 2012)

The fund slightly underperformed its benchmark during 2011, returning 7.93% gross versus the index's 8.02%. The fund's return was well above the median and follows strong performance versus peers during 2010. It underperformed in 2009, a year when peers with credit-biased mandates outperformed.

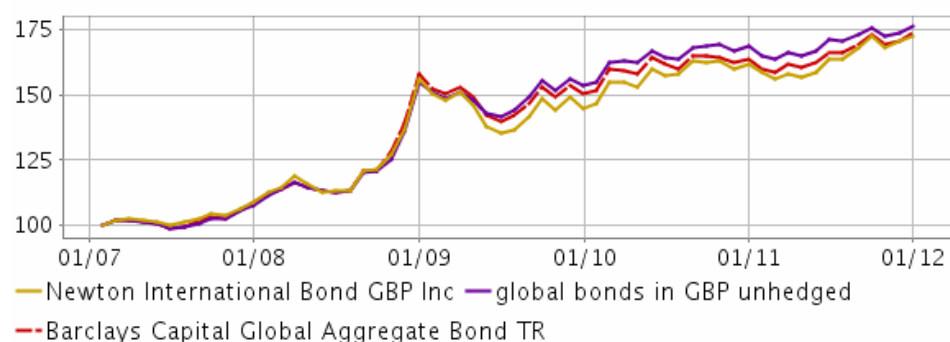
Paul Brain continues to be overweight duration from the developed economies versus the benchmark (except Japan, where the upside is perceived as being limited by zero rates already being priced in). At the start of the year, Brain initially shortened the fund's duration to 5.2 years (by selling Treasuries, gilts and Australian government bonds) due to the improving US and North European economic backdrop.

The fund's duration has been lower than the benchmark's (due to an underweight to Japan) throughout 2011 and remains short at 6.04 years relative to the benchmark's 6.91 years.

Brain still favours currencies that will benefit from an improving growth outlook and rising interest rates, such as those of the emerging markets, Australia and Canada. While not expecting much from the big three currencies, the fund did take an overweight position to the US dollar mid-year, with this position cut at year end. Proceeds were switched into Mexican, Canadian, and Malaysian exposures, increasing the fund's emerging markets exposure to above 10%. An underweight to the euro was also maintained throughout the year.

The fund has continued to be underweight the periphery, although opportunistic positions in long-dated Italian and Spanish bonds were taken during the year. Inflation-linked securities from France and the UK were also added.

Cumulative performance



Calendar-year performance

	2007		2008		2009		2010		Year to 30/12/2011	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
Fund	8.0	11/62	43.2	42/64	-7.1	47/66	11.6	19/73	6.6	18/74
Index**	7.6		45.1		-4.8		8.9		6.4	
Median	6.4		45.9		0.1		9.8		5.1	

** Barclays Capital Global Aggregate TR

Fund benchmark: JPMorgan Global Government Bond index

Share class screened: GB0006779655 (Inc)

Sources of return

	None	Low	Average	High
Portfolio duration				
Credit spreads				
Country / sectors				
Yield curve positioning				
Currency exposure				
Derivatives				

Portfolio characteristics (January 2012)

Effective duration (years) 6.04

Asset allocation (%)

	Long	Short	Net
Emerging markets debt	11.10	0.00	11.10
Governments	83.10	0.00	83.10
Other	5.80	0.00	5.80

Regional breakdown

	Long	Short	Net	Curr (%)
Eurozone	0.94	0.00	0.94	18.17
Japan	0.05	0.00	0.05	26.66
North America	2.58	0.00	2.58	39.74
Other Europe	1.53	0.00	1.53	12.53
Other	0.94	0.00	0.94	2.89

Credit rating breakdown

	Long	Short	Net
A	5.00	0.00	5.00
AAA	75.00	0.00	75.00
AA	13.10	0.00	13.10
BBB	6.70	0.00	6.70

Duration

	Long	Short	Net
0-3 years	0.30	0.00	0.30
3-5 years	0.80	0.00	0.80
5-10 years	2.70	0.00	2.70
10+ years	2.30	0.00	2.30

* Credit rating exposures are expressed in spread duration terms. All others expressed in interest rate duration 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.