BNY MELLON INVESTMENT FUNDS - NEWTON REAL RETURN FUND

Sub-fund of UK-authorised Oeic
Fund owner: BNY Mellon Fund Managers
Fund manager/adviser: Newton Investment Management Ltd
Named portfolio manager/adviser(s): Iain Stewart (since March 2004) / Team
Peer group: Specialist Asset Allocation in GBP

Location: London
Launch date: August 1993
Fund size (January 2012): £4.99bn

Contact group: +44 500 660000 or www.bnymellonam.com

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

STANDARD & POOR'S

STANDARD & POOR'S AAA FUND MANAGEMENT RATING

March 2012

Investment style

Region:	Global
Strategy:	Long-only

Performance statistics (annualised)

	Three years	Five years
Fund	6.9%	8.1%
Index**	5.0%	6.9%
Interest rate^	0.9%	2.8%
R-Squared vs index	0.1	0.0
Beta vs index	0.0	-0.1

*** LIBOR +4%*
^ Citi GBP EuroDep 3 Mon GBP

Risk characteristics

	Five years
Standard deviation	9.3
Downside deviation	2.6
Maximum monthly drawdown (%)	-5.9
Gaining months (%)	63.3
Sharpe ratio	0.2
Sortino ratio	0.2

Performance Data Source - All statistical data on this report has been run to 31/12/2011 on NAV to NAV basis, with gross income reinvested, in .

Standard & Poor's opinion (February 2012)

The recent restructuring of Newton's investment team, which saw the appointment of Simon Pryke as CIO, the move of former CIO Jeff Munroe to global equities team head and Jon Bell from the global equities team to the multi-asset team, has had little impact on the team responsible for managing this fund.

Iain Stewart's real return team of six other portfolio manager/analysts, including the experienced James Harries and Suzanne Hutchins, has remained stable and continues to manage the real return mandates in a highly collegial manner. While Stewart is the named manager on this fund, investment strategy reflects the team view.

The team makes highly effective use of the group's extensive analytical resources, which include over 20 global equity analysts and 35 global and regional fund managers, throughout the investment process. This sees the senior team members set long-term thematics that form a basic framework across all of the group's investment desks, which they then adapt to suit the absolute return focus of the real return strategy through the use of multiple asset classes.

Where the execution of some of Newton's thematics has disappointed across the investment desk over the past couple of years, Stewart and his team have impressively managed to eke out positive returns (gross of fees) on this absolute return-focused fund in each of the past five years. The team has also succeeded in beating the fund's Libor +4% (gross) performance target over the same period.

Performance success is testament to the team's ability to adapt themes across all asset classes and derivative strategies to optimise returns while minimising volatility and downside risk. This, together with the experience and stability of the team, allows the retention of an S&P AAA rating.

Fund manager & team

With over 25 years' investment experience, Iain Stewart is a senior member of Newton's global funds team (averaging 18 years' experience) - of which his seven-strong real return team is a sub-set. Stewart sits on the investment strategy group of economists and senior fund managers. These roles make him ideally placed to receive ideas from across the firm, including the three in-house strategists, 18 global equity analysts, 29 global equity fund managers, 14 regional fund managers, nine fixed income managers and nine specialist analysts.

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

James Harries - politics (Bristol University), joined Newton in 1995. He moved briefly to Veritas in 2004, where he ran a global income fund, before returning to Newton in 2005.

Matthew Brown - history (Bristol University), joined Newton in 2000.

Suzanne Hutchins - fine art (University College London), joined Newton in 1991 as an analyst and was a fund manager by 1994, going on to manage the UK and Intrepid team. She left the group in 2005 to become an investment specialist, but returned in August 2010.

Aron Pataki - joined Newton in 2006 from Lacima Group, initially in risk management and derivatives before joining the real return team in 2010.

Please see page three for required research analyst certification disclosure.

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STANDARD & POOR'S

Management style

The fund aims to provide significant real rates of return over time with volatility expected to lie between that of equities and of high quality fixed income. The formal investment objective is 1-month sterling Libor +4% (annualised over a market cycle of approximately five years).

Iain Stewart uses the group's thematic process for portfolio construction and relies on Newton's large team of analysts to identify individual securities that should produce an absolute return while expressing those themes.

The mandate is kept highly flexible, allowing Stewart and the team to invest in any asset class. The only constraints on the portfolio are on sector allocations (up to 20%) and company exposure (up to 5%).

There is a core of return-seeking securities surrounded by offsetting and uncorrelated securities to ensure a consistent, solid return with dampened volatility through most market conditions. Stewart expects to add value from top-down asset allocation and bottom-up security selection. He uses the different securities within various asset types to benefit from long-term themes and trends in the most efficient way.

The fund cannot borrow stock to go short, but derivatives can be used to protect against market risk. Stewart prefers to use index puts and collars for their insurance features.

Given the absolute return objective, the fund's default position is to be fully hedged back to sterling. However, the manager may leave overseas currencies unhedged if he expects them to appreciate relative to sterling.

Portfolio & performance analysis (January 2012)

The real return team remained cautious over the last 12 months, and continued to focus on its deleveraging theme. As a result, equity exposure continued to fall through the year and stood at 48.5% at review, with defensive pharma and telecoms stocks still preferred at the cost of financials. This left the equity portion with a beta of 0.7. Bond exposure remained around 20%, but there has been a clear shift from corporate into sovereign debt. Cash levels increased to 27%.

In terms of currency, sterling exposure stood at 65.5%, all euro exposure was hedged primarily into sterling (at review the portfolio was actually 1.8% short the euro), with the remainder of assets hedged primarily into US dollar. Over the year, the team did use index options (FTSE 100, S&P 500, DJ EURO STOXX) to hedge equity exposure, with protection varying between 7% and 20%, delta-adjusted.

Iain Stewart and the team have created a strong and long track record on this fund. Under his management, the fund has produced a positive return (gross of fees) in every calendar year (2005-11), and has returned 8.1% a year (net) against a return of 6.93% for Libor 1-month +4% and 2.8% for the MSCI World index. Importantly, this return has been achieved with a far lower volatility than equity markets (8.7% against the MSCI World's 14.9%). Performance has been driven by some timely and bold asset allocation moves, combined with strong stock selection in the underlying asset classes.

Over the last 12 months, the main contributors within equities included healthcare stocks GlaxoSmithKline and Roche, and tobacco stocks Reynolds American and BAT. The government bond exposure, in particular the index-linked securities, helped within fixed income. The allocation to cash and hedge out of euro also helped. The protective put options detracted through the year.

Calendar-year performance

	2007	2008	2009	2010	2011
	%	%	%	%	%
Fund	15.2	4.8	11.0	10.2	0.0
Index**	10.1	9.8	5.3	4.7	4.9
Interest rate^	5.9	5.8	1.3	0.6	0.7

*** LIBOR +4%*
^ Citi GBP EuroDep 3 Mon GBP
Share class screened: GB0006780323 (Ord)

STANDARD & POOR'S AAA FUND MANAGEMENT RATING

Portfolio characteristics (January 2012)

No. of holdings	117
% in top 10	24.6
Turnover ratio (%)	N/A

Key holdings

	%
Norway (Kingdom of) 4.5% May 2019 *	3.3
GlaxoSmithKline	3.0
Bayer *	2.7
Newcrest Mining *	2.6
ETFS Physical gold	2.5
USA Treasury bonds 2.5% January 2029 *	2.5
Reynolds American	2.1
Barrick Gold Corp	2.0
Roche Holdings *	2.0
Total	1.9

** In top 10 holdings a year ago*

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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.