



October 2009

Strategy focus: Newton's Global Dynamic Bond strategy

The Newton Global Dynamic Bond strategy aims to maximize the total return (of income and capital growth) from a diverse range of bonds and currencies around the world. The strategy was launched on May 1, 2006 and has grown in size to the equivalent of \$486 million¹.

How the strategy works

The strategy, which is managed alongside our 'core' global bond strategy, employs a highly dynamic, unconstrained approach to asset allocation within a broad fixed-income universe. It invests opportunistically in four principal asset classes: government bonds, emerging-market sovereign debt, and investment-grade and high-yield corporate instruments. It also invests in currencies and holds derivatives as appropriate to generate additional returns and to control risk.

The Newton Global Dynamic Bond strategy is a constantly evolving and forward-looking strategy in which we seek to identify, via our global thematic approach, key areas of opportunity and risk in bond and currency markets. Our organisational structure, which encourages lateral thinking, fluid communication and the swift implementation of ideas, is highly favourable to the management of such an unconstrained bond and currency strategy.

Our fixed-income team strives to achieve the strategy's objective through a number of factors, among them being asset allocation, portfolio duration, credit-quality exposure, stock selection and currency exposure. In short, we use indices to identify the universe of investment candidates, but it is the ability

to deviate thoughtfully from the composition of those indices (within accepted levels of risk) that creates significant investment opportunities.







Using themes to shape a dynamic bond strategy

As with all of our investment strategies, the Newton Global Dynamic Bond strategy harnesses our global themes to identify long-term trends that affect bond and currency markets.

Our management of each of the factors highlighted above as being important in seeking to fulfill the strategy's objective is driven to some extent by our global thematic approach.

That approach differentiates us from many of our competitors. We do not use rigid statistical models or narrow theories to invest in bond and currency markets on behalf of our clients. Instead, we gain perspective from our themes, which identify the key trends and relationships inherent in an ever-changing world. Our approach means that we maintain a significant degree of flexibility, which allows us to adapt our ideas, and the investments that derive from those ideas, in anticipation of changes in economies, markets and industries.

AMONG WAYS IN WHICH SOME OF OUR THEMES ARE INFLUENCING OUR BOND AND CURRENCY INVESTMENTS AT PRESENT ARE:

Theme	Implications for			
	Currencies and government bonds	Investment-grade corporate bonds	High-yield corporate bonds	Emerging-market sovereign bonds
 <p>Population Dynamics</p>	Underpins case for 'long' duration positions in Western markets	Leads to preference for high-quality corporate issues that are attractive to pension plans		Entails bias towards emerging market countries with lower dependency ratios such as Brazil and Indonesia
 <p>ENERGY SUPPLY</p>	Norwegian krone and Canadian dollar favoured	Seeking beneficiaries of higher energy prices	Identifies case for investment in for example, a Swedish oil company	Leads to preference for beneficiaries such as Russia, Mexico and Qatar
 <p>Networked World</p>	Higher energy costs underscore rationale for selective investment in index-linked bonds	Supports investment in windmill farm securitisations, as well as in a Russian oil company	Leads to avoidance of companies that are not responding to environmental change	Entails preference for participants in alternative energy supply, such as Brazil
 <p>Fire Risks</p>	Highlights investment case for Hungary and Poland	Supports bond investment in some Russian oil companies	Validates investment in a number of Asian corporate issuers	Identifies attractions of South African debt
 <p>Construction & Reconstruction</p>	Leads to preference for emerging-market currencies	Identifies attractions of bonds issued by 'high surplus' countries		
 <p>All Change!</p>	Highlights case for government bonds on signs of reversion of liquidity cycle	Suggests emphasis on bonds with government/real support and avoidance of those that are backed by assets that may be downgraded	Leads to avoidance of overleveraged companies	Highlights opportunities in emerging markets with improving credit quality, and the need to avoid those that are squandering their windfalls

We believe that flexibility is a key element of successful investment in bond and currency markets. During economic cycles, different fixed-interest asset classes enjoy success at different times and, in order to take advantage of the changing fortunes of these different asset classes, a dynamic approach to asset allocation is critical. The table below illustrates the variability of bond-market returns (in U.S. dollars) since the beginning of 1998, with each of the principal areas of government, emerging-market, investment-grade and high-yield bonds ranked according to their returns in each calendar year.

VARIABILITY OF BOND MARKET RETURNS

	1st	2nd	3rd	4th
2009 (9m)	HY 50.76	EM 25.29	IG 14.55	Govt 1.44
2008	Govt 11.66	IG -3.38	EM -10.23	HY -27.01
2007	Govt 6.38	EM 5.89	IG 3.76	HY 2.53
2006	HY 10.22	EM 9.68	IG 3.32	Govt 2.82
2007	EM 13.73	Govt 6.50	IG 5.20	HY 4.91
2006	EM 15.07	HY 14.69	IG 8.66	Govt 8.02
2005	HY 30.57	EM 29.01	IG 8.73	Govt 4.39
2004	EM 15.18	Govt 10.73	IG 10.72	HY 1.61
2003	IG 9.95	Govt 7.31	HY 4.76	EM 1.52
2002	EM 13.19	Govt 10.22	IG 8.49	HY -6.15
2001	EM 21.65	HY 3.06	IG 1.74	Govt 1.33
2000	Govt 13.03	IG 10.75	HY 5.01	EM -12.83

HY - High yield EM - Emerging markets IG - Investment-grade credit Govt - Government bonds

During 2007 and 2008, bond markets were characterized by concerns about the credit 'crunch' and its implications. Amid these concerns, investments in riskier markets (high-yield corporate bonds in particular) underperformed as investors favoured the 'safe-haven' attributes of government bonds. In the four years prior to 2007, by contrast, riskier assets such as emerging-market debt and high-yield bonds were the main beneficiaries of investment flows; and since the end of 2008 the investment climate has favoured risk-taking once more, with the

recovery in high-yield bonds being particularly spectacular.

Positioning

The unconstrained nature of the Newton Global Dynamic Bond strategy means that the composition of the portfolios that are managed in accordance with it may differ significantly from the make up of bond indices (for example, in relation to geographic and currency exposure, yield curve positions and the specific bond issues held in portfolios).

At 30 September, the asset allocation of the strategy was as follows:

Asset class breakdown	% as at 09.30.09
Government bonds	14.5
Quasi-Government bonds	4.1
Investment-grade corporate bonds	36.4
Emerging-market government bonds	13.6
Index-linked government bonds	0.0
High-yield corporate bonds	27.6
Convertibles	0.7
Cash, derivatives and floating rate notes	3.1

The strategy takes advantage of the changing economic cycle by moving between the various fixed-income asset classes. Typically, during the 'recovery' phase of the economic cycle, the strategy is able to benefit from the improving credit quality of corporate and emerging-market bonds. Between September 2008 and May 2009, for example, we increased exposure to investment-grade bonds to take advantage of the wider spreads available. More recently, we have reduced government bond exposure and increased exposure to high-yield corporate and emerging-market debt.

As the economic recovery gains momentum, the prospect of inflation and higher short-term interest rates may undermine the prospects of government bonds; the strategy may reduce its government bond exposure or use derivatives to hedge the duration risk associated with holding government issues at that point in the cycle. Once economies begin to weaken, the strategy's bond mix will usually be skewed towards high-quality, 'safe-haven' bonds that tend to do well as interest rates and inflation fall. During

2008, for example, the holding of government bonds allowed the representative portfolio to benefit from the significant deterioration in global economic conditions. Similarly, being underweight in investment-grade corporate bonds was beneficial as credit 'spreads' (the additional yield premia over government equivalents) widened during the summer of 2008. This allocation process is driven by the long-term thematic perspective that sits at the heart of our investment process.

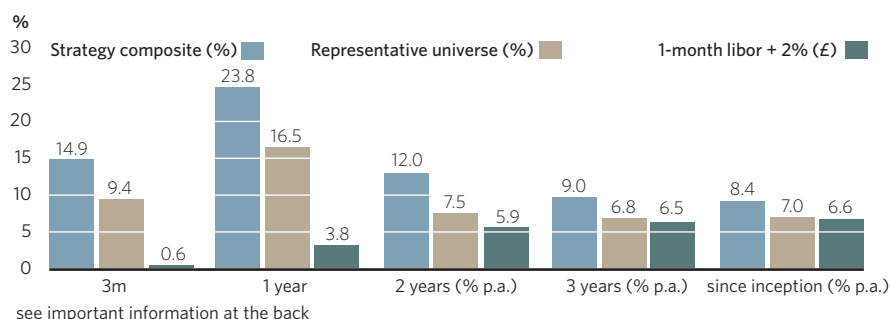
Performance

The performance returns achieved in a dollar-based portfolio managed in accordance with the Global Dynamic Bond strategy may differ in future from the returns from the UK, sterling-based strategy which we have run since May 2006, and the past performance of the UK strategy is not indicative of future returns either from that strategy or from a dollar-based equivalent. The dollar denomination of a US portfolio's Libor-plus target may necessitate a different allocation to particular regions, sectors or stocks and/or the use of currency hedging in seeking to meet the dollar-based target. However, we show, for illustrative purposes, the returns of the UK-based strategy's composite over various periods since inception against a 1 month libor +2% sterling benchmark and a representative universe comprised of the following (sterling-hedged) indices:

Sterling hedged indices	%
JPM Global Government Bond index	25
ML Global Broad Corporate Index	25
ML High Yield Constrained Index	25
ML Global Emerging Sovereigns index	25

The universe is intended to highlight the strategy's potential areas of opportunity rather than to be prescriptive about the strategy's asset allocation. Its components are equally weighted indices of the four principal markets in which the strategy may invest.

PERFORMANCE TO 30 SEPTEMBER 2009:



The use of a real-return benchmark

We recommend that portfolios invested in accordance with the strategy be managed against a cash-related (one-month \$ Libor +2% per annum) benchmark. By way of background, the UK strategy's benchmark will change from its current, customized format to a cash-related (one-month £ Libor +2% per annum) benchmark on 1 December 2009. The essence of the strategy's objective is to generate attractive absolute returns across the economic cycle; indeed, the rationale for the establishment of the strategy was to use a flexible, unconstrained approach in the pursuit of attractive long-term returns from the full range of fixed-income asset classes.

After a 28-year 'bull' market in government bonds (during which sovereign yields have declined markedly), prevailing yields are relatively low and, notwithstanding the near-term prospect that government bonds could continue to perform well, yields could well rise from these historically low levels. Being locked into a static bond-index-related benchmark (and failing to employ an appropriately flexible and dynamic approach to bond and currency investment) could give rise to capital losses as interest rates start to rise. By contrast, an opportunistic approach

to bond investing that looks to exploit, for example, the value in corporate bonds while using duration management tools to reduce capital losses from rising government bond yields, seems a more logical approach. Employing a cash-related benchmark underscores the focus upon generating attractive absolute returns (as opposed to the potentially destructive nature of seeking to exceed the return on an index-based benchmark, which may itself be weak).

Investment team

Our Global Dynamic Bond strategy is managed by our fixed-income team and is supported by our global research analysts and strategists, as well as by the wider investment team. Paul Brain is lead manager of the strategy and Howard Cunningham is alternate manager.

How to invest

The strategy is available to U.S. investors on a separate-account basis, subject to the size of investment being made.

'Newton' refers to the following group of affiliated companies: Newton Investment Management Limited, Newton Capital Management Limited, Newton International Investment Management Limited, Newton Capital Management LLC and Newton Fund Managers (CI) Limited. Assets under management include assets managed by all of these companies except Newton Capital Management LLC, which provides marketing services in the U.S. for Newton Capital Management Limited. Except for Newton Capital Management LLC and Newton Capital Management Limited, none of the other Newton companies offer services in the U.S. Newton Capital Management Limited is an investment management firm, authorized and regulated in the UK by the Financial Services Authority in the conduct of investment business and is a wholly owned subsidiary of The Bank of New York Mellon Corporation. Registered in England no. 2675952. Newton Capital Management Limited is registered as an investment adviser under the Investment Advisers Act of 1940.

Newton has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®). For each of the years from 1996 to 2006, Newton has been verified by an independent verifier. Copies of the verification reports are available upon request. Additional information regarding the firm's policies and procedures for calculating and reporting performance results and a complete list and description of Composites is also available by contacting Ciarán Spillane (516) 338 3521. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Non-fee-paying accounts are not included in the Composites. Capital gains, dividend and interest received may be subject to withholding tax imposed by the country of origin and such taxes may not be recoverable.

The U.S. Dollar is the currency used to express performance. Returns include the effect of foreign currency exchange rates. Further information regarding the exchange rates used is available upon request. Returns are presented gross and net of management fees and include the reinvestment of all income. Actual returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. The FTSE All World, FTSE World and JP Morgan Global Government Bond indices used for comparative purposes are calculated gross of withholding taxes. The MSCI AC World, MSCI World and MSCI EAFE indices used for comparative purposes are calculated net of withholding taxes.

Past performance is not a guide to future returns. The value of investments and the income from them can fall as well as rise and investors may not get back the original amount invested. The value of overseas securities will be influenced by fluctuations in exchange rates. If part of the portfolio is invested in sub-investment grade bonds, which typically have a low credit rating and carry a high degree of default risk, then please be aware that this can affect the capital value of your investment. If the portfolio has exposure to hedge funds, gold, private equity and property via publicly quoted transferable securities, then there are additional risks associated with these sectors. The information contained within this document should not be construed as a recommendation to buy or sell a security. It should not be assumed that a security has been—or will be—profitable. There is no assurance that a security will remain in the portfolio. Newton's process is driven by bottom-up stock-picking and this may from time to time engender considerable relative differences to the benchmark. Newton's process is driven by bottom-up stock-picking and this may from time to time engender considerable relative differences to the benchmark.

Important Information for past recommendations. The portfolio data included herein, should not be relied upon as a complete listing of the strategy's holdings (or of a representative strategy's top and bottom holdings) as information on particular holdings may be withheld if it is in the strategy's best interest to do so. The securities discussed do not represent an account's entire portfolio and in the aggregate may represent only a small percentage of an account's portfolio holdings. Characteristics, portfolio holdings and sector weightings are subject to change without notice and may not represent current or future portfolio composition. Individual client accounts may differ from characteristics shown. The sector weights and holdings of any particular account may vary based on any particular investment restrictions applicable to the account. The portfolio date is 'as of' the date indicated. Stock position information refers to the representative strategy and not the composition of the comparative benchmark. This information is for illustrative purposes only and is subject to change at any time. In accordance with Rule 206(4)-1 under the Investment Advisers Act of 1940, upon request, we will furnish you with a list of all recommendations made by Newton within the immediately preceding twelve months.

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