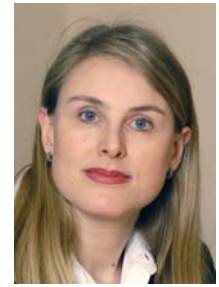




Monthly Manager Commentary Newton Higher Income Fund

February 2008



Tineke Frikkee

For Professional Investors Only

Newton Higher Income Fund Commentary

February 2008

Economic and market developments

Volatility remained the overriding feature of markets in February with individual stocks reacting aggressively to any negative newsflow. UK equity markets had recovered somewhat from the losses seen in January only to fall in the last two days of the month. The economic situation in the US looks increasingly weak despite the monetary and fiscal policy responses from the relevant authorities, while in the UK those authorities appear less willing or able to produce similar stimulus to avert a slowdown in economic growth.

A rather negative outlook from the Bank of England accompanied the quarterly inflation report as rates were cut by 25 basis points. Inflation remains a key factor given continued increases in food and commodity prices on a global basis and February saw many commodities break through record levels, including oil and gold. Given that the change in these relative prices is outside the control of the Bank of England, the Governor warned of decreased living standards in the western world.

The European Central Bank kept rates on hold again, but appeared more concerned with the downside risks to growth than previously. The euro reached record highs versus the US dollar.

Merger and acquisition activity in the mining sector continued to underpin stellar performance, and the sector is now the top performer over 12 months. The oil and gas sector recovered during February, following very weak performance in January, buoyed by further oil price appreciation. Telecommunications stocks, both fixed line and mobile, were the market laggards and pharmaceuticals stocks also struggled to maintain ground in February.

Fund performance

The FTSE All-Share Index returned 0.77% during the month. The Small Cap Index produced the strongest performance, rising by 4.25%. The FTSE 250 Index also outperformed the wider market, up 1.93% but large caps lagged, with the FTSE 100 Index increasing by 0.47% (total return). The Fund returned -0.05%, and this placed the Fund in the fourth quartile over one and three months, third quartile over six months, one year and three years, and second quartile over five years. All figures in sterling terms and on a total return basis.

FKI and **Cable & Wireless** were the top contributors to the Fund, staging recoveries following poor performance in January. **FKI** was approached by Melrose with an indicative offer and **Cable and Wireless** bucked the trend of falling telecom markets in anticipation of their strategy presentation. **British American Tobacco** performed well in February, regaining ground lost in January as good results and two acquisitions had a positive impact on the stock. Our negative stance on financials continued to contribute positively, as **HBOS** surprised the market with the high level of US housing exposed assets on its balance sheet. Our voids in **Tesco** and **Unilever** were positive for relative performance as they continued to struggle in February given raw material and consumer pressures.

However, voids in the mining and certain oil stocks continued to weigh negatively on performance as they performed well and we are precluded from holding them under our yield driven investment approach. Strong performers included **Rio Tinto**, **Anglo American**, **BHP Billiton** and **BG Group**.

The credit crunch continued to impact highly levered companies as investors worried about covenant breaches and rising interest costs. Within the Fund, **Yell** and **Premier Foods** remained weak as both stocks have significantly de-rated and now trade on mid single digit P/E ratios. Telecommunications stocks **BT** and **Vodafone** were also negative for performance as Vodafone was impacted by competitive calling plans in the US market where group company **Verizon** operates and **BT** suffered from higher competition in the UK broadband market.



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Fund activity

Negative market reactions provided opportunities to top up on a number of our current holdings, including **BT** and **Vodafone** in the telecoms sector. We also added to some of our holdings in the utilities area such as **Severn Trent** and **Scottish & Southern Energy** on price weakness.

We added **Carnival**, the cruise ship operator, to the portfolio on stock price weakness. This is a good quality company with leading market positions. High oil prices and concerns about US consumer spending lead to stock price weakness and the company entered our investment universe. While the short term outlook is somewhat uncertain, the long-term investment case remains very positive, as the increasing numbers of retiring baby-boomers are their key customers.

We continued to take profits in **EMAP**, selling the stock out of the portfolio. Other reductions following strong performance included **Tate & Lyle**, **Rexam** and **TUI Travel**. Our strategic reduction of financials exposure also continued, with reductions in **Aviva**, **Jardine Lloyd Thompson** and **Admiral**.

Outlook

Debt markets remain in turmoil and credit remains expensive and largely unavailable. Stock prices are discounting severe earnings reductions in more cyclically or financially exposed sectors of the market where single digit P/E multiples are not uncommon. We believe that clarity about the severity of the global slowdown will need to be forthcoming before any upward trend in markets can begin. In the intervening period volatility will persist.

T Frikkee, February 2008



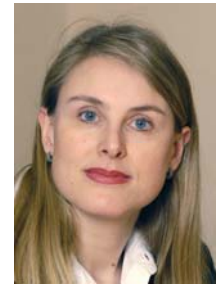
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Monthly Manager Commentary Newton Higher Income Fund

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Tineke Frikkee

Sector group weightings as at 29 February 2008

Sector Group	Portfolio %	FTSE All Share %	Active %	Last Month Active %	Active change %
Oil & Gas	14.1	17.1	-3.0	-3.3	-0.3
Basic Materials	0.0	11.7	-11.7	-10.3	+1.4
Industrials	10.1	7.2	2.9	3.1	-0.2
Consumer Goods	11.6	10.1	1.5	2.1	-0.6
Healthcare	7.0	6.3	0.7	0.5	+0.2
Consumer Services	10.4	10.2	0.2	0.8	-0.6
Telecommunications	15.6	6.8	8.8	8.1	+0.7
Utilities	15.2	4.2	11.0	9.9	+1.1
Financials	11.5	25.7	-14.2	-13.6	+0.6
Technology	2.4	0.9	1.5	1.7	-0.2

Top ten holdings against FTSE All Share as at 29 February 2008

Stock	Yield %*	% of Portfolio	% of FTSE All Share	Active %
British American Tobacco	4.5	6.1	1.8	4.3
National Grid	4.5	5.0	1.1	3.9
Scottish & Southern Energy	4.0	4.4	0.8	3.6
Centrica	4.5	4.3	0.7	3.6
Vodafone Group	4.7	8.7	5.1	3.6
BP	4.3	9.3	6.2	3.1
BT	7.5	3.8	1.1	2.7
Smiths Group	3.9	2.7	0.2	2.5
Cable & Wireless	5.2	2.7	0.2	2.5
TUI Travel	4.1	2.1	0.1	2.0

*Consensus forecast dividend yield next financial year.
Portfolio holdings are subject to change at any time and without notice.

Performance (%) as at 29 February 2008

	Yield*	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	Fund Size
Newton Higher Income Fund	5.45	-0.05	-10.05	-10.64	-10.70	20.07	97.35	£2.8bn
IMA UK Equity Income Average	4.06	1.71	-7.76	-9.05	-9.61	23.20	93.37	
FTSE All Share	3.33	0.77	-7.72	-6.55	-2.66	32.86	101.63	

Source: Lipper Hindsight 5. Basis: total return in GBP, no initial charge, net annual charges, net UK income reinvested.

** Yield date 31/10/2007. All yield figures that are used are calculated on the basis of dividing the last 12 months dividends by the current price. Current yields are not indicative of future yields.



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