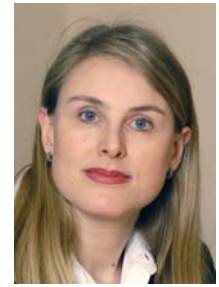




Monthly Manager Commentary Newton Higher Income Fund

November 2007



Tineke Frikkee

For Professional Investors Only

Newton Higher Income Fund Commentary

November 2007

Economic and market developments

November was a very poor month for equities as the crisis in the financial sector and risk aversion among investors once again came to the fore. The fear of a global economic slowdown depressed market sentiment. This was driven by sub-prime contagion in the wider market, along with a number of profit warnings primarily driven by a slowing consumer. Equities had fallen much further, before a rally late in the month, spurred by hopes of further monetary stimulus.

Merger and acquisition activity raised its head once again in November as BHP Billiton made an all paper offer for rival Rio Tinto, pushing the mining sector once again, to the top of the market's performance table for the month. Elsewhere, the Qatari Investment Fund pulled out of its bid for Sainsbury, and the stock fell back markedly.

The oil price continued its ascent, peaking near to US\$100 a barrel before falling back late in the month as supply constraints worried the market. This, coupled with a very large discovery in Brazil by BG Group, resulted in the oil sector performing strongly.

The quandary faced by Central Banks continues with increased turmoil in credit markets suggesting a rate cut is necessary, although higher inflation remains a threat, not least because of higher oil prices. In the UK, the Bank of England has so far resisted cutting rates, however following three rate cuts since the late summer in the US, the money markets are pricing in a further round of easing in the near term from both the US Federal Reserve and the Bank of England.

The worst performing sector in the market was once again banks, as investors continued to worry about bad debts and growth expectations. A relatively benign statement from Barclays went some way to dispel some of the worst fears in the market and a significant investment in Citigroup by Abu Dhabi resulted in a rally by these stocks late in the month.

Fund performance

The Fund performed strongly in November on a relative basis, returning -4.53% on a total return basis. This placed the Fund in the second quartile over one month, three months, six months and five years, and third quartile over one and three years. UK equities fared poorly over the month, with the FTSE All Share Index down 4.75%. The large caps outperformed, with the FTSE 100 Index down 4.00%, whereas FTSE 250 Index and FTSE 350 Index declined by 7.77% and 4.54% respectively. All figures in sterling terms, total return.

Given the turbulence in the market over the course of the November, our large cap, stable, defensive holdings held up well, benefiting from the flight to quality. Tobacco stocks **British American Tobacco** and **Imperial Tobacco** were top performers. Utilities also performed strongly, led by **National Grid**, **Scottish and Southern Energy**. **Tui Travel** has suffered from integration and consumer-related concerns but released a strong trading statement, with sales and earnings beating expectations, and this resulted in a positive share price reaction.



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Fund performance (Cont'd)

Once again, our significant underweight position in Banks proved beneficial, notably in **HSBC** and **Royal Bank of Scotland** which continued to be hit by fears about the true health of balance sheets, and exposure to sub-prime securities. However, our yield-driven void of **Standard Chartered** impacted the Fund's performance negatively, as did the yield-driven void of **Rio Tinto** – the stock performed strongly on the back of the bid by **BHP Billiton**. The Fund also suffered as a result of its void of **BG Group** which performed strongly on the news that a discovery at its Tupi Oilfield would contribute significantly to its reserve base. Having performed strongly on the back of the announcement of the new CEO at **LogicaCMG**, the company's share price fell sharply as it warned that revenue growth would be lighter than expected in the fourth quarter. Despite the extremely negative reaction from the market, we remain comfortable with the investment case and expect the new CEO to be able to drive significant shareholder value. Meanwhile, **IMI** was a poor performer over the month and **Premier Foods** continued to be buffeted by input inflation headwinds and signs of a flagging consumer.

Fund activity

There has been little change to our strategic preference for large cap companies with stable earnings. We increased our weighting in telecoms companies **BT** and **Vodafone**. The latter is benefiting from positive mobile data trends, which should be a significant driver of growth going forward. We also increased our weighting in **BP** and **Scottish & Southern Energy**. We took advantage of negative consumer-focused sentiment to add to our position in **Marks & Spencer**, which is supported by the 50% contribution to the business from its food division. Its customer base tends to be older and less indebted, and we are therefore more confident in holding the stock relative to its peers in the current environment. Other changes to existing positions included topping up **Yell**, **Aberdeen Asset Management** and **Wolseley**.

We introduced vehicle distributor and retailer **Inchcape** to the fund. Despite its 25% exposure to the UK consumer, the business is diversified across Europe, Eastern Europe and Asia, with exposure to exciting growth opportunities in Russia and China. We are confident in the management's ability to execute its growth strategy, and offset margin pressure in the UK with cost cutting, non-core disposals and synergy opportunities from recent acquisitions. We also purchased a position in **Sage**, which was a new entrant to our yield universe as management doubled the dividend. The stock has suffered from its acquisitions in the US, however at current levels we believe that as yet no growth is priced in, despite having strong businesses in the rest of the world.

We completed our sale of **Royal Bank of Scotland** from the Fund, further reducing our exposure to banks. We also completed our yield-driven exit from **BAE systems**. The reduction of **Scottish & Newcastle**, **Unilever** and **Inmarsat** continued, as all three stocks have met our yield-driven sell targets, while we also reduced exposure to consumer facing stocks including **Tui Travel** and **Signet**.

Outlook

Our view remains cautious as the credit crunch continues and the secondary effects of it begin to be felt within the wider economy. While it is likely that the market remains volatile and stocks that have sold off sharply may rally over the short term, we will continue to invest in those companies that can provide a growing income stream.

As ever, volatility in markets is likely to throw up investment opportunities and the yield-driven process that we operate will become an increasingly important valuation tool as the investment community grapples with slower growth, and its effects on company earnings.

T Frikkee, November 2007



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Sector group weightings as at 30 November 2007

Sector Group	Portfolio %	FTSE All Share %	Active %	Last Month Active %	Active change %
Oil & Gas	13.0	16.1	-3.1	-3.7	-0.6
Basic Materials	0.0	10.6	-10.6	-9.9	+0.7
Industrials	9.6	7.2	2.4	2.3	+0.1
Consumer Goods	13.3	10.0	3.3	4.2	-0.9
Healthcare	6.3	6.7	-0.4	-0.5	-0.1
Consumer Services	11.1	10.9	0.2	-1.4	-1.2
Telecommunications	14.5	7.0	7.5	5.5	+2.0
Utilities	12.9	4.4	8.5	7.7	+0.8
Financials	17.0	26.3	-9.3	-9.6	-0.3
Technology	1.9	0.9	1.0	1.0	~

Top ten holdings against FTSE All Share as at 30 November 2007

Stock	Yield %*	% of Portfolio	% of FTSE All Share	Active %
National Grid	3.9	4.7	1.2	3.5
Centrica	3.8	4.1	0.7	3.4
British American Tobacco	4.1	4.9	1.6	3.3
Scottish & Southern Energy	3.7	4.0	0.8	3.2
Vodafone Group	4.1	7.8	5.3	2.5
Cable & Wireless	4.7	2.7	0.3	2.4
BP	3.8	8.5	6.1	2.4
Tui Travel	3.6	2.4	0.1	2.3
Smiths Group	3.6	2.4	0.2	2.2
Aviva	5.9	3.0	1.0	2.0

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

Performance (%) as at 30 November 2007

	Yield**	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	Fund Size
Newton Higher Income Fund	4.4	-4.53	-0.65	-7.08	1.61	43.79	92.09	£3.35bn
IMA UK Equity Income Average	3.4	-5.25	-1.50	-7.90	1.77	45.68	90.73	~
FTSE All Share (total return)*	2.8	-4.75	1.27	-3.10	8.54	54.03	93.22	~

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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