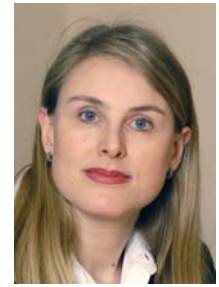




Monthly Manager Commentary Newton Higher Income Fund

October 2007



Tineke Frikkee

For Professional Investors Only

Newton Higher Income Fund Commentary

October 2007

Economic and market developments

Equities performed strongly in October, extending the gains made since mid August. On a global basis, UK equities took the lead over other major markets, driven by strong performance in the heavily weighted oil and gas sector, which was boosted by the upward trajectory of the oil price.

Following the US rate cut in mid September, financials continued to rally in the early part of the month. However, it soon became apparent that banks would have to write down their sub-prime assets significantly more than they had already done. The scale of these losses claimed the heads of two Wall Street banks and brought the capital adequacy of some names in the US banking sector into question – with dividend cuts being rumoured in the market. Consequently, the banks sector in the UK continued to underperform. Pharmaceuticals stocks were also weak as the companies released lacklustre results. Cost cutting measures aimed at boosting profits to neutralise weak top line growth, were welcome, but not enough to drive the stocks higher.

In the US, the Federal Reserve followed the 50 basis points easing in September with a further 25 basis points cut at the end of the month. However, it also signalled a more neutral stance going forward as the risks to inflation continued to be present, especially with oil and commodity costs remaining at elevated levels. Their more hawkish stance and further losses revealed by the US banks caused some market weakness.

In the UK, rates were left on hold as expected as CPI remained within an acceptable range. While there were increasing signs that the housing market is slowing, third quarter GDP was stronger than estimated and retail sales surprised on the upside, albeit through heavier discounting.

The US dollar weakened against all major currencies, with the euro rising to a record relative high and sterling holding above the US\$2 mark throughout the month.

Fund performance

The Fund performed strongly in October, returning +4.53% on a total return basis. This placed the Fund in the first quartile over one month, second quartile over three months, third quartile over one and three years, and second quartile over five years (annualised). The FTSE All Share Index finished the month up +4.35% (total return). The FTSE 250 lead index performance, returning +5.93% (total return), while the FTSE 100 Index increased by +4.14% (total return) and the FTSE Small Cap Index lagged slightly behind returning +2.93%, all in sterling terms.

The most significant contributor to performance was **Scottish & Newcastle**, which was approached, by **Carlsberg** and **Heineken** in a joint bid. Although rejected by the board, speculation about an increased offer or rival bid lent ongoing support to the share price.

Given the poor performance of the financials sector, our void in **HBOS** and underweight position in **Royal Bank of Scotland** were beneficial. However, our yield-driven void in **Standard Chartered** was negative for relative performance as the bank bucked the downward trend of its UK peer group, as Asian markets rallied.



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Fund performance (Cont'd)

The insurance stocks **Admiral** and **Old Mutual** were also positive contributors, with the latter rising on the back of the announcement of a £350 million share buyback programme and potential for reducing its exposure to South Africa. Our overweight position in **BP** added to fund performance as the company surprised positively with its results and benefited from the higher oil price. Meanwhile **LogicaCMG**'s share price reacted positively to the appointment of a new CEO.

By contrast, **Centrica** was a poor performer for the Fund in October as gas prices increased, placing pressure on short-term profitability. **National Grid** was also a negative as it failed to keep pace with the strong market. Elsewhere the pharmaceutical sector struggled to perform, and our holding in **GlaxoSmithKline** also weighed on performance.

The Fund's position in **Tomkins** was similarly weak as housing and auto data in the US continued to disappoint and the US dollar continued to weaken – we subsequently reduced our holding in this name.

Fund activity

There has been little change to our strategy of increasing the overall market cap weighting of the Fund, notably within the more defensive telecommunications and utility sectors, including **BT**, **Scottish & Southern Energy** and **Centrica**. We also increased our weighting in **BP**, **Legal & General**, **Smiths Group** and **Aberdeen Asset Management**. We added a new position in **Wolseley** the distributor, as we believe the stock price is fully discounting potential earnings downgrades due to its exposure to the US housing market and the company should gain share as markets weaken due to the strength of its franchise.

We reduced our holding in **Scottish & Newcastle**, taking advantage of the bid-driven strength to book profits. The sale of **Drax** continued, as did the reduction in our banks weighting, including **Barclays** and **Royal Bank of Scotland**.

Within the retail space, we reduced our exposure to the higher risk retailers, including **Debenhams**, **Signet**, **Carpentright** and **DSG International** in preference for a position in **Marks & Spencer**. We believe that the recovery story at **M&S** has further to run, given the store refurbishments and the ongoing roll out of more Simply Food stores. The 50% contribution from the food division should lend defensive support to the stock.

Outlook

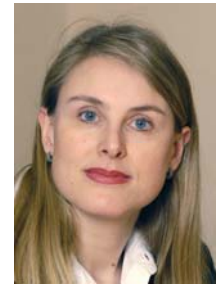
We continue to believe the ramifications of the credit crunch have yet to be fully played out, and suspect that there will be further casualties as tighter credit conditions take effect. While global growth appears to be supported, the risks are to the downside, as the new engines of growth in the East have yet to be tested by a weak US economy. In this environment we believe the attractions of a stable and growing income stream will once again come to the fore.

T Frikkee 31/10/2007



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Sector group weightings as at 31 October 2007

Sector Group	Portfolio %	FTSE All Share %	Active %	Last Month Active %	Active change %
Oil & Gas	12.2	15.9	-3.7	-4.8	-1.1
Basic Materials	0.0	9.9	-9.9	-9.9	~
Industrials	9.8	7.5	2.3	2.7	-0.4
Consumer Goods	13.7	9.5	4.2	4.8	-0.6
Healthcare	5.8	6.3	-0.5	-0.5	~
Consumer Services	10.0	11.4	-1.4	-0.9	+0.5
Telecommunications	12.5	7.0	5.5	3.6	+1.9
Utilities	11.8	4.1	7.7	7.3	+0.4
Financials	17.8	27.4	-9.6	-8.5	+1.1
Technology	2.0	1.0	1.0	0.9	+0.1

Top ten holdings against FTSE All Share as at 31 October 2007

Stock	Yield %*	% of Portfolio	% of FTSE All Share	Active %
National Grid	4.0	4.3	1.1	3.2
Centrica	3.7	3.9	0.7	3.2
British American Tobacco	4.3	4.5	1.4	3.1
Scottish & Southern Energy	3.8	3.6	0.7	2.9
Tui Travel	3.7	2.6	0.1	2.5
Cable & Wireless	4.5	2.6	0.3	2.3
Smiths Group	3.4	2.4	0.2	2.2
Aviva	5.3	3.1	1.0	2.1
Premier Foods	6.2	2.1	0.1	2.0
LogicaCMG	3.8	2.0	0.1	1.9

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

Performance (%) as at 31 October 2007

	Yield**	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	Fund Size
Newton Higher Income Fund	4.6	4.53	4.27	-0.68	7.53	54.13	107.83	£3.6bn
IMA UK Equity Income Average	3.5	3.65	3.66	-0.85	8.02	56.73	101.06	~
FTSE All Share	2.9	4.35	6.03	4.60	13.62	65.59	110.03	~

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

** Yield date 28/09/2007. 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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