

Global Growth & Income Fund for Charities

Period to 30 June 2008

Objective

The objective of the fund is to maximise total returns for charities in terms of capital growth and income from a portfolio of global equities and fixed interest securities. The minimum target yield (income) is 3% per annum.

Investment Philosophy

The management of the Global Growth & Income Fund for Charities is driven by Newton's global investment approach, which combines the skills of global industrial analysts and investment management teams, with the purpose of identifying companies we believe will deliver strong returns. The managers then construct and manage the fund in the most appropriate manner, so as to meet the stated fund objective and the expectations of the investors.

Performance Summary

	Q2 2008	6 months to 30/06/08	2007	2006	2005	2004	2003	2002	Since Inception (12/11/01)
Global Growth & Income Fund for Charities*	0.8	-6.5	6.6	12.6	22.1	13.4	20.0	-14.1	62.8
WM Total Charities (ex property) Universe**	-1.6	-8.6	6.5	12.3	20.5	11.1	17.6	-17.2	45.0

General Information

Fund Size	£164.5m (as at 30 June 2008)
Fund Launch	November 2001
Benchmark	WM Total Charities (ex property) Universe
Dividend Payment Dates	February, May, August and November (following calendar quarter ends)
Current Yield	3.9%
Unit Price***	128.06p (Bid price) 130.04p (Offer price)

Asset Allocation Ranges

UK Equities	40-65%
Overseas Equities	10-40%
UK Fixed Interest	5-20%
International Fixed Interest	0-10%

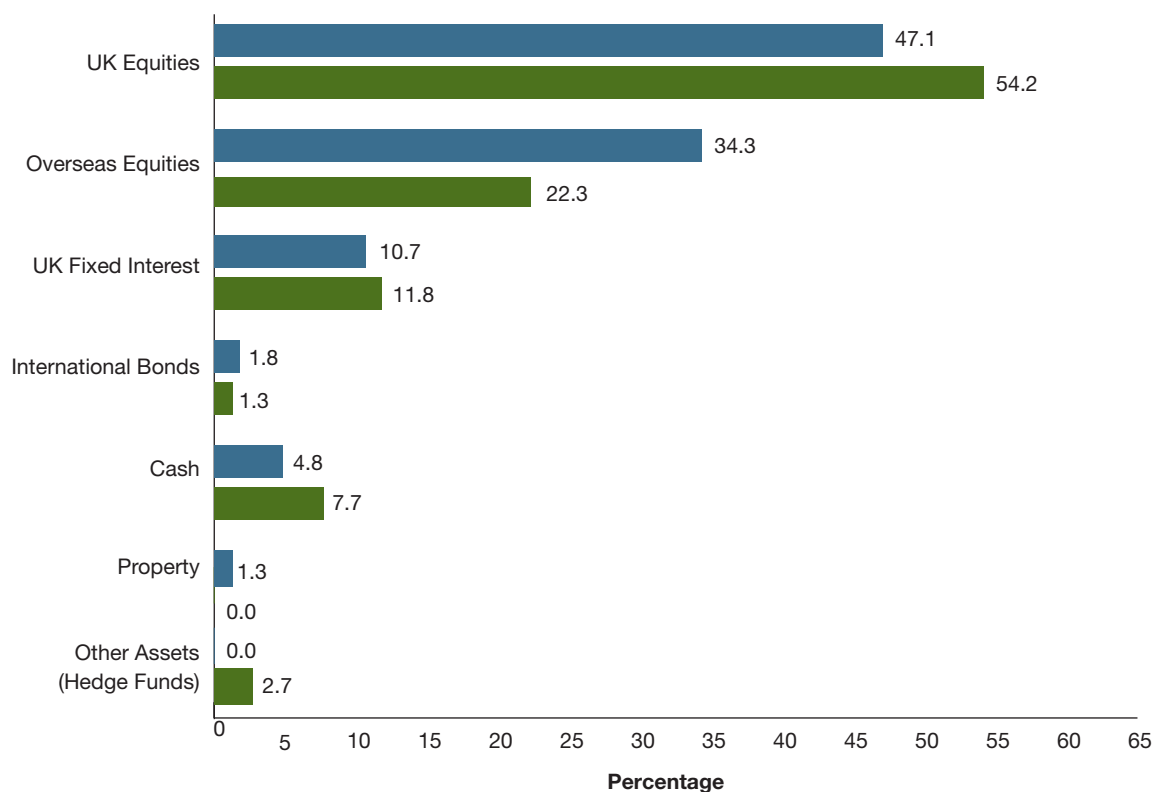
Cash balances and other suitable assets may also be held

* Source: Newton on sterling, offer-to-offer basis (net of fees).

** Source: The WM Total Charity Universe data for the three months to 30/06/08 is an estimate.

*** Source: Newton as at 30 June 2008.

Fund Asset Allocation as at 30/06/08



■ Global Growth & Income Fund for Charities
 ■ WM Total Charities (ex property) Universe (estimate)*

Source: Newton as at 30/06/08

* Whilst the fund holds property, this is in lieu of fixed interest as well as a move towards portfolio diversification. The benchmark, for the purposes of consistency, remains the WM Total Charity (ex property) Universe.

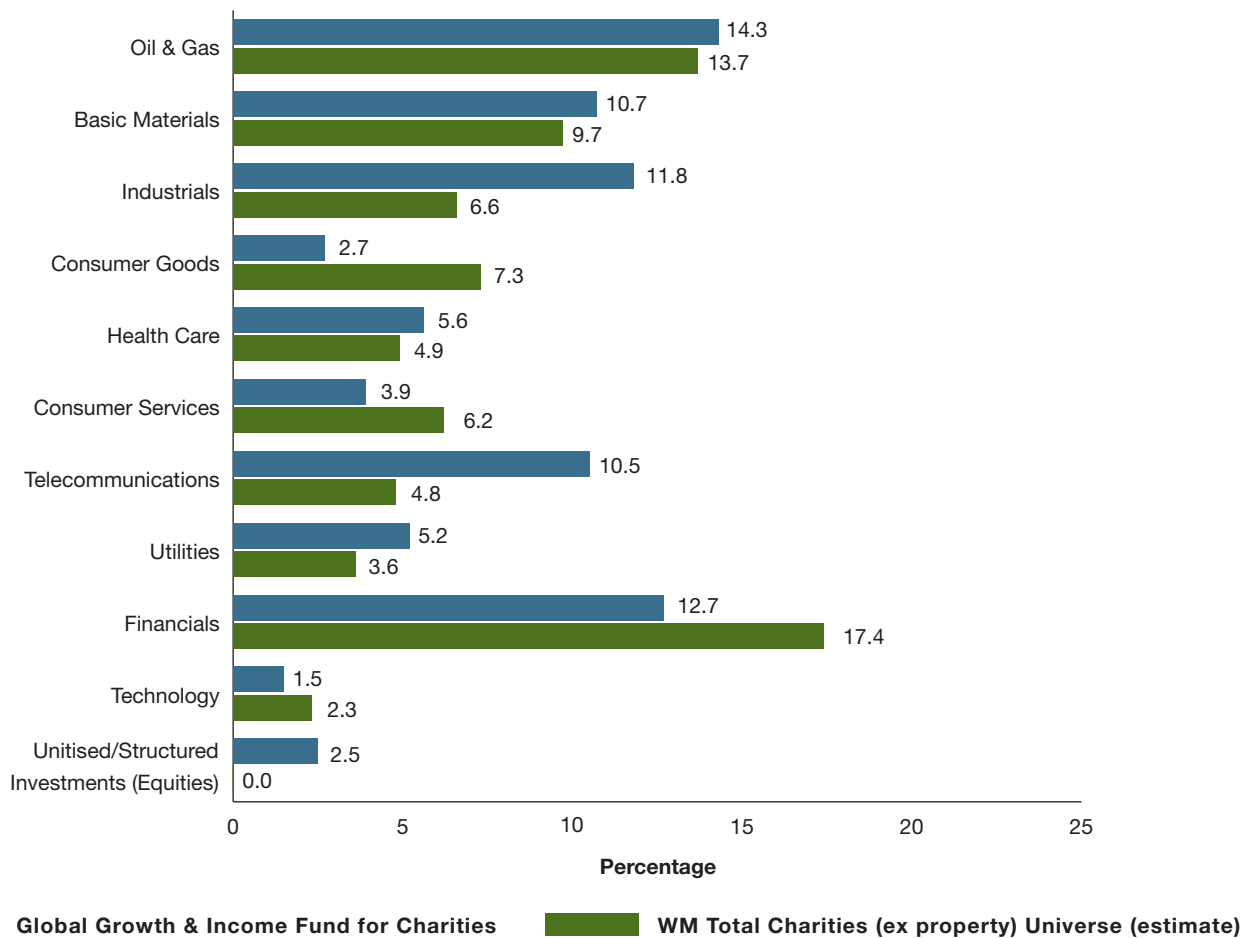
Fund Asset Allocation as at 30/06/08

The list below shows the ten largest holdings, in the UK and overseas respectively (excluding fixed interest and property), within the fund at the end of June 2008:

Top 10 UK Holdings	% of Fund	Top 10 Overseas Holdings	% of Fund
BP	3.8	BlackRock World Mining Trust	1.5
Royal Dutch Shell	3.5	Mosaic	1.5
HSBC	3.2	Statoil Hydro	1.4
Vodafone	3.0	Telstra	1.4
GlaxoSmithKline	2.4	Bayer	1.2
BHP Billiton	2.1	BASF	1.1
Anglo American	1.9	Findlay Park US Smaller Companies	1.1
BT Group	1.5	ConocoPhillips	1.0
National Grid	1.0	Woodside Petroleum	1.0
Scottish & Southern Energy	0.9	ENI	1.0
	23.3		12.2

Source: Newton as at 30/06/08

Sector Breakdown – how the equity part of the fund is invested



Source: Newton as at 30/06/08

Fund Manager's Report

*"There must be some way out of here," said the joker to the thief
 "There's too much confusion, I can't get no relief
 Businessmen, they drink my wine, plowmen dig my earth
 None of them along the line know any of its worth"*

Bob Dylan "All Along the Watchtower"

Investors continued to be tested in the second quarter of 2008. The stock market rallies excited by the rescue of Bear Stearns, an event deemed in March to have marked (the beginning of) the end of the credit squeeze, ran out of steam in May after coming close to restoring markets to end-2007 levels. In June, sentiment took a turn for the worse.

The relentless rise in the price of commodities, particularly of food staples such as wheat and rice and of energy, both at the pump and in the home, have put paid, temporarily at least, to confidence. The rising price of oil, in market memory, is associated with the inflationary/stagflationary conditions of the 1970s and with its unsavoury economic and political consequences.

Commodity price inflation poses an additional and more severe threat to already-slowing global economic activity than does perhaps even the credit squeeze and the continuing disarray in the housing market. The immediate costs are unavoidable and exert an adverse impact on real incomes. Labour costs in the developed world remain the key determinant of lasting infection by inflation and, to date, workforces have been relatively quiescent. In the developing world, commodity costs are of far greater importance and may undermine both the economic benefits of globalisation and essential political consensus.

The resurgence of such challenges, which has been accompanied by central bank belligerent rhetoric about the dangers of inflation, have been unsettling for financial markets. Further losses were sustained during the quarter, although not as great as some of the commentators imply, with only Japan and cash providing positive sterling returns.

The fund appreciated by 0.8% over the last three months compared to the currently estimated quarterly return from the WM Charities (ex property) Universe of -1.6% and, over the first six months of 2008, the return of -6.5% compares 'well' with the peer group's (estimated) decline of 8.6%. A proposed dividend of 1.70p is payable on 29th August 2008, a year-on-year increase of 11.8%.

Global sovereign bond markets surrendered some of their strength of earlier months as fears of a slowdown in economic activity, imposed by the unrelenting credit squeeze, were displaced by recognition that higher material costs were being converted, partially at least, into higher consumer prices. Newton continues to favour portfolio exposure via investment-grade bonds, although perhaps with less enthusiasm than hitherto, given inflation concerns. Yields on offer are well above equivalent sovereign issues and they provide some safeguard against inflationary strain.

We have commented before on the unusual nature, within various equity markets, of the “fragmented dominance” of sectors. In most European markets, the financial sector holds sway; in the UK, there are more frequent shifts owing to the (over-?) active approach of the FTSE actuaries determining regular entry/exit of companies to/from indices by reference solely to market capitalisation rather than to industrial balance or to equity free-float.

The current *victor ludorum* is held by the resources sectors (oil and gas; basic industries) which, when combined, comprise in excess of 30% of the All-Share Index and whose relative appreciation of c. 18% restrained to 1.4% the overall quarterly decline in the UK market. Portfolios were well-weighted in this area thanks to Newton’s ‘energy supply’ and ‘earth matters’ themes and outperformance was not limited to the United Kingdom. After poor performances in the first quarter, the oil companies in particular received a boost from recognition that higher oil prices might become the norm rather than the result of the temporary supply dislocations within the oil market. *BP, Royal Dutch Shell, ConocoPhillips* and *Total* made notable contributions to performance. Similar success was enjoyed by *BASF, Bayer* and by *Mosaic* in the chemical sector and *BHP Billiton, Anglo American* and *Xstrata* as pricing power was demonstrated in the field of agricultural supplies and mining extraction.

Elsewhere, a number of factors were at work to restrain performance. The developing slowdown in the global economy, the failure of credit conditions to improve, the relentless capital-raising by financial institutions, the impact of rising input costs and, finally, the evaporation of consumer confidence took their toll of many sectors. There was notable weakness in the banks (even those doing business outwith the domestic milieu such as *Standard Chartered*), life insurance companies (by virtue of their sensitivity to equity market levels) and also food producers (seen as price-takers rather than price-makers), media, leisure and retailers (susceptible to relenting personal expenditure) and logistics companies (vulnerable to oil costs).

Important Information

This information is for professional investors only. This is a financial promotion and is not intended as investment advice. Past performance is not a guide to future performance. The value of your investments, and the income from them, can fall as well as rise and you may not get back the original amount invested. The value of overseas securities will be influenced by the rate of exchange which is used to convert these to sterling. Current yields are not indicative of future yields. The information contained in this document should not be construed as a recommendation to buy or sell a security.

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Weak demand, slower growth, higher input costs, falling housing values and more expensive money are not the best diet for healthy financial markets, as newspapers are only too keen to remind their readers. There is, indeed, real Schadenfreude at the discomfort of the global financial sector despite the urgent need for credit easing and improved tax revenues.

Such circumstances render the roles of monetary policymakers all the harder to fulfil. Central banks, particularly those of the developed world, need to beware old remedies of adding pain to an already painful situation: “*And all our yesterdays have lighted fools/The way to dusty death*” (Macbeth). So far, food and energy price increases have acted as taxes on consumption and reduced real income. Central bank rhetoric on upward moves in interest rates needs, for the time being at least, to remain such. If actions follow rhetoric, central banks may risk forcing economies into a downward spiral: a further credit squeeze in the housing sector/commercial sector/financial markets may amplify weakness within the economy which, in turn, may weaken overall activity.

The corporate sector also faces its own individual challenges. At a time when personal consumption is weak, companies will be loath to invest in efficiency, let alone in expansion, with the normal adverse consequences for employment and income. A second challenge arises from falling share prices, exacerbated by indiscriminate stock-lending. A stock-borrower rarely has in mind the easing of settlement difficulties (the ‘proper’ employment of stock lending) but more the sale of the stock with the purpose/expectation of buying back the shares below the price at which they have been sold. The stock-lender receives minimal remuneration whilst the institutional provider devalues the assets held, with potentially adverse consequences for an investee company’s standing and for the valuation of pension fund assets. Such short-sightedness beggars belief.

There will be no immediate relief for equities, whilst the macro-economic climate remains so adverse. Markets are not expensive but, without mitigation of inflationary pressures, the derating is likely to continue, and the anticipated decoupling of developing from developed markets may yet be frustrated by such conditions. The stock market, indeed, seems to be the only market where reduced prices seems not to stimulate additional demand. Opportunities will continue to arise, however, for the longer-sighted and patient.