

Absolute return: a smoother path to long-term growth



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At Insight Investment our focus is on developing solutions that specifically meet our client needs. To address issues associated with volatility, we have developed a range of investment strategies that offer clients a smoother path to long-term growth.

The Absolute Insight funds invest in global currencies, emerging market debt, credit and UK equities on a market neutral basis.

Each of the funds aims to deliver attractive, risk-adjusted returns regardless of market conditions while at the same time demonstrating lower volatility than more traditional approaches.

The approach used differs markedly from that used by more traditional long-only funds that have limited ability to avoid market drawdown when asset classes fall. In addition, such funds have relatively limited discretion to invest off benchmark and therefore display high correlations to the movements of the market they are invested in.

The Absolute Insight funds have the freedom to invest across a much broader range of assets and therefore display lower correlation to mainstream indices. As such they provide a greater source of diversification within an investment portfolio.

For local authority pension schemes that are willing to accept slightly higher risk in return for the potential of greater growth, Insight can also offer access to a proven diversified growth capability through the Insight Broad Opportunities strategy.

Since its launch in 2004, the strategy has delivered on its objective to outperform cash returns by 4% over the course of a market cycle, despite one of the most difficult economic environments in recent history. Furthermore, the strategy has achieved this performance with materially lower volatility than equity markets, aided by its dynamic approach to asset allocation and focus on investments which offer a relatively stable return profile.

Both approaches have the common goal of generating positive returns while minimising downside risk. Insight has extensive experience in developing and implementing derivative strategies which are used to help reduce risk across the funds. The funds are designed to provide a more attractive risk/return profile than an equivalent long-only investment, while providing the opportunity for investors to select the amount of risk they are willing to take in order to achieve their objectives (Figure 1, over).

The following summaries provide more information about the investment strategies employed for each of the funds.

Absolute Insight UK Equity Market Neutral Fund

The fund takes positions by identifying stocks that we believe are mispriced relative to similar stocks or the broader market. Our specialist team then implements positions through paired trades, whereby every investment, whether long or short, is paired with an appropriate hedge to focus on exposure to specific risk factors while minimising others.

This approach is designed to provide a smoother path to long-term growth, generating positive returns while seeking to minimise volatility. This fund has the lowest risk/return profile within the Absolute Insight fund range.

Absolute Insight Currency Fund

The Absolute Insight Currency Fund seeks to provide an uncorrelated source of alpha by exploiting opportunities created by the relative supply and demand for global currencies. These opportunities can be both tactical in nature as well as providing exposure to longer-term structural themes.

The fund uses a full range of derivative instruments, including futures, forwards and options, to target and remove particular risks to provide a smoother path to long-term growth regardless of market environment.

Absolute Insight Credit Fund

This fund combines Insight’s robust and proven fixed income investment process with a multi-strategy approach to identify opportunities across the credit spectrum.

The range of strategies which may be deployed include carry, momentum (long or short) and special situations as well as macro trades and risk hedging techniques.

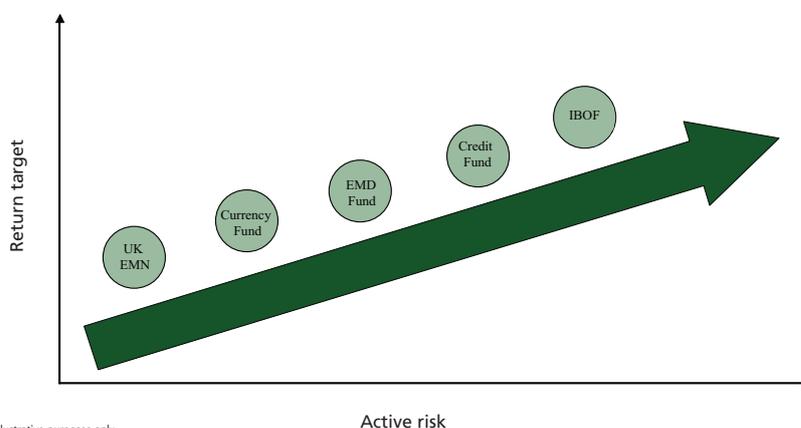
The fund aims to generate the majority of returns from alpha but can also take exposure to underlying market direction if the manager feels this would be beneficial for returns.

Absolute Insight Emerging Market Debt Fund

Emerging market debt (EMD) is growing in appeal among investors seeking new sources of return. Investors are considering what emerging markets, with healthier economies than developed nations and good credit ratings, can offer. Within the debt markets, a very broad and diverse opportunity set exists. With over 50 countries offering government and/or corporate debt in either local or external currencies, there are always multiple prospects for investment.

Insight differentiates itself from other asset managers in that we have chosen to take an

Figure 1: Strategic positioning: risk-return profiles



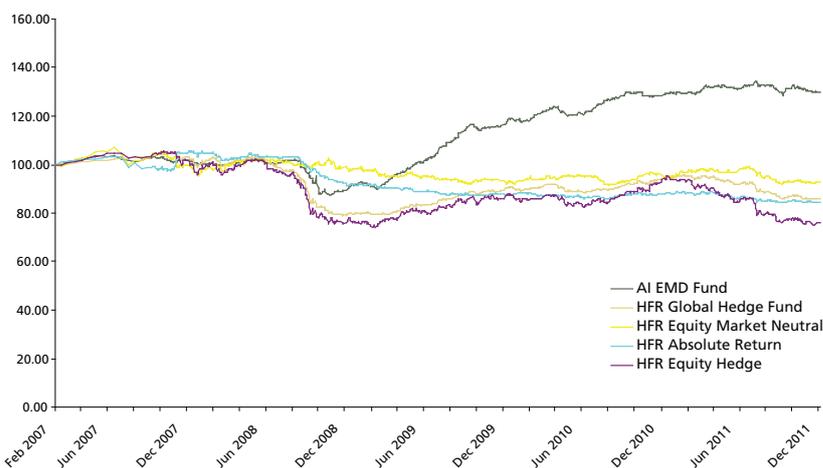
For illustrative purposes only

absolute return approach to investing in EMD. While the asset class has long been a source of compelling returns for investors, one of the primary risks associated is volatility of the asset class and the timing of the investment decision. Investors can be fearful of inadvertently investing at the top of the market, given the extreme downward moves that can be seen at times of risk aversion. An

absolute return approach addresses these issues.

Insight believes that the key to success is in the ability to manage downside risk. One of the ways we achieve this is by using short positions to completely or partially hedge a variety of risks and generate positive returns, even when markets are falling. Both cash

Figure 2: Performance of the Absolute Insight Emerging Market Debt Fund since inception



Source: Insight and Bloomberg as at 31 December 2011. Insight fund returns are gross of fees and in sterling terms. Index returns are in US dollar terms.

holdings and market hedges are increased when we become more cautious as this enables us to manage downside risk in order to help protect capital.

The absolute return approach means that the fund is unrestricted by the constraints of investing versus a traditional EMD index, so it has no obligation to have an allocation to a particular sector or security unless the fund's managers believe that position is worth taking.

While investors have traditionally been able to access absolute return exposure through hedge funds, Insight was an early adopter of the UCITS structure for absolute return strategies.

This means we can provide the long-short approach in a way that better meets our client needs, and addresses issues associated with fees, transparency and governance. Our EMD absolute return approach outperformed hedge fund indices in 2011 and since inception.

Insight Broad Opportunities Fund

The Insight Broad Opportunities Fund utilises a dynamic multi-asset approach and targets an absolute return of 3-5% in excess of cash. This approach allows the managers the freedom to adjust asset allocation swiftly according to the prevailing market environment which helps to reduce drawdown risk and improve overall risk-adjusted returns.

The fund can invest across a broad range of asset classes including equity, fixed income, total return, commodities and property. Importantly, it has the ability to allocate a significant proportion of the portfolio to 'opportunistic investments' where the managers can identify specific investment opportunities including relative return positions and income generating strategies.

Five key reasons to invest in an absolute return strategy with Insight

- **Stability:** targets positive, cash plus returns through a variety of market conditions
- **Lower volatility:** aims to produce a smoother path to returns than a traditional long-only approach
- **Diversification:** seeks returns that have low levels of correlation to mainstream asset classes and strategies
- **Liquidity:** daily or weekly dealing (Absolute Insight Credit Fund redemptions require one week's notice)
- **Strong governance and regulation:** The UCITS structure ensures transparency and liquidity within a clear regulatory framework
- **Expertise:** managed by teams of award-winning specialists with proven track records

Why Insight Investment for absolute return?

Insight Investment has a strong track record in managing absolute return funds. We were among the first to take advantage of the increased flexibility of the UCITS regulations to bring a full range of regulated absolute return funds to investors. Launched in 2002, Insight is responsible for assets under management of £168.3 billion¹, across absolute return, multi-asset, fixed income, liability driven investment, cash management and specialist investment strategies.

¹ As at 31 December 2011, represented by the value of physical securities and liability benchmarks

Please note the value of investments and any income from them will fluctuate and is not guaranteed (this may be partly due to exchange rate fluctuations). For professional investors only, not to be distributed to retail clients.

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