

Insight UK Equity Income Booster

October 2011

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An attractive investment opportunity today

The Insight UK Equity Income Booster Fund offers an excellent opportunity for investors to achieve strong and stable levels of income, along with the potential for capital growth. Current market conditions make it especially attractive for income investors seeking the potential for stable income despite increased volatility.

The case for investing in traditional UK equity income strategies today is compelling. After the sudden market fall in August dividend yields are at their most attractive for over a year, providing investors with an opportunity for strong returns.

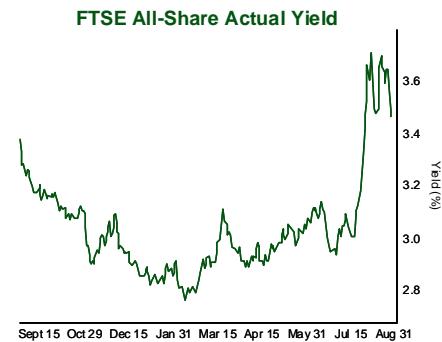
However, today's markets present an even stronger case for investing in the Insight UK Equity Income Booster Fund, which uses derivatives to achieve higher yields than traditional equity income funds. The Fund targets an above-average 8% annual yield for investors and supports its returns using options, meaning that the Fund can generate a more stable income stream by exploiting increased market volatility.

This document explains the Fund's clear benefits for investors today. First, high dividend yields are attractive for income investors. Second, high market volatility has led to a rise in options pricing, increasing the Fund's ability to comfortably achieve its income target, and to make the most of any capital growth. These factors contribute to a powerful case for investing in the Fund, which has demonstrated its prowess with powerful performance compared with its peers.

The case for income investing: dividends are at a high point

Income investors benefit from high dividend yields. The recent market fall means that yields have increased: share prices have declined, but expected dividend payouts have not, meaning that investors can access strong income streams at more attractive prices.

The yield on the FTSE All-Share index was 3% on 30 June, and rose to 3.5% on 31 August. Yields have remained at about that level into September, presenting the most attractive yields for over a year (see graph). This is all the more attractive when equity dividend yields are compared to bond yields: at the end of June, yields on 10-year gilts stood at 3.2%, before declining to 2.8% at the end of August. (Investors should be aware that equities and gilts can be compared in other ways, meaning that gilts may remain more appropriate for some investors.)

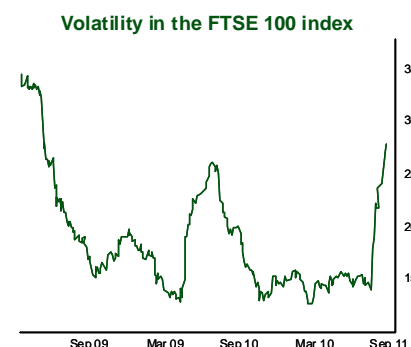


Source: Bloomberg, 8 Sept 2011

Forecasts for equity dividends are also positive, further strengthening the case for investing for income. Estimated 12-month forward dividend growth stands at 15%¹, and the 12-month forward dividend yield stands at 4.1%.

The case for an options overlay: volatility has pushed up options pricing

The Insight UK Equity Income Booster Fund sells call options to provide a boost to income derived from dividends. When markets are volatile, options premiums increase: this means it is even easier for the Fund to achieve its 8% annual yield target in periods of high volatility.



Source: Bloomberg

¹ Estimate from Shore Capital, 25 August 2011

A call option gives an investor the right to buy an asset at a fixed price (the strike price) within a specific period of time. The Insight UK Equity Income Booster Fund sells call options against the equities that it holds: a counterparty pays the Fund for the opportunity to buy some of its assets at a certain price in the future. The premium gained from selling the options contributes to the Fund's returns.

Options become more expensive when markets are volatile, because if the volatility continues, it is more difficult to calculate the probability that the strike price of the option will be triggered. This means that in times of increased volatility, the Fund can more easily achieve its annual yield target of 8% by selling options at higher premiums.

The impact of increased market volatility is also clear from the average strike price of options sold by the Fund. When options rolled over earlier this month, their average strike price as a proportion of current share price was at a two-year high (see table). A higher average strike price means that assets can increase in value by a greater amount before value is ceded to the option holder, effectively meaning that the Fund can benefit from a greater proportion of any increase in asset values. This provides the potential for added returns from capital growth, alongside the 8% yield target.

Strike price for options sold by Insight UK Equity Income Booster Fund	
Start date	Average strike price
Sep 2009	113.0%
Dec 2009	114.4%
Mar 2010	109.0%
Jun 2010	112.5%
Sep 2010	110.4%
Dec 2010	108.9%
Mar 2011	107.1%
Jun 2011	107.6%
Sep 2011	115.8%

For investors looking for stable, attractive income streams, an options overlay is an attractive addition to an equity income strategy. By deriving income from two sources, the Fund effectively diversifies its sources of returns, increasing the probability that the Fund will consistently meet its yield target. The Fund's specific approach means that market conditions today make it all the more attractive.

The case for the Insight UK Equity Income Booster Fund: a proven investment process

The Insight UK Equity Income Booster Fund aims to pick out equities that are expected to recover over the long term, rather than stocks that are expected to rise substantially in the short term. Its current bias towards large-cap stocks also ensures liquidity for its options overlay. By deriving returns from equity dividends, and topping them up using options premiums, the Fund has delivered attractive returns to investors.

Its performance, here measured against the two high-profile UK equity income funds that also apply a systematic options overlay, demonstrate that it has provided strong, steady returns since launch:

	One year (%)	Since launch of Insight UK Equity Income Booster Fund, 31 March 2009 (annualised %)
Insight UK Equity Income Booster	3.96	17.05
Competitor fund A	9.13	14.82
Competitor fund B	-5.39	15.13

Source: Lipper. Performance to 31 August 2011.

The Fund targets an annual income yield of 8%, net of fees. It typically invests across 40 to 60 stocks, primarily in the UK equity market, and applies a systematic call option overlay to boost returns. Its managers are Tim Rees, a highly-regarded equity income manager with over 20 years of experience and strong performance through his career, and Takis Anastassopoulos, a derivatives specialist in Insight Investment's Financial Solutions Group.

Past performance is not a guide to future performance. The value of investments and any income from them will fluctuate (this may partly be due to exchange rate changes) and investors may not get back the amount invested.

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